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November 16, 2001

VIA OVERNIGHT DELIVERY

K. David Waddell, Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243

01-D1013

Re: Application of Adelpia Business Solutions of Tennessee, Inc., Adelpia Business Solutions of Nashville, L.P., and Adelpia Business Solutions Atlantic, Inc. for Approval of Merger and a *Pro Forma* Transfer of Control as Part of a *Pro Forma* Corporate Restructuring

Dear Mr. Waddell:

On behalf of Adelpia Business Solutions of Tennessee, Inc., Adelpia Business Solutions of Nashville, L.P., and Adelpia Business Solutions Atlantic, Inc. ("the Applicants"), enclosed for filing with the Tennessee Regulatory Authority are an original and thirteen (13) copies of the above-referenced application. Also enclosed is a check for \$25.00 to cover the requisite filing fee for the above-referenced application.

Please date-stamp the enclosed extra copy of this filing and return it in the self-addressed, stamped envelope enclosed herein. Should you have any questions, please do not hesitate to contact Michael Donahue at (202) 424-7683.

Respectfully submitted,



Russell M. Blau
Michael P. Donahue

Counsel for the Applicants

Enclosures

cc: John B. Glicksman, Esq.
Terry Romine, Esq.

**BEFORE THE
TENNESSEE REGULATORY AUTHORITY**

| | | |
|---|---|------------|
| Application of |) | |
| |) | |
| ADELPHIA BUSINESS SOLUTIONS OF |) | |
| TENNESSEE, INC., ADELPHIA BUSINESS |) | |
| SOLUTIONS OF NASHVILLE, L.P. and |) | |
| ADELPHIA BUSINESS SOLUTIONS |) | Docket No. |
| ATLANTIC, INC. |) | |
| |) | |
| For Approval of Merger and a <i>Pro Forma</i> |) | |
| Transfer of Control as Part of a <i>Pro Forma</i> |) | |
| Corporate Restructuring |) | |
| |) | |

APPLICATION

Adelphia Business Solutions of Tennessee, Inc. ("Adelphia Tennessee"), Adelphia Business Solutions of Nashville, L.P. ("Adelphia Nashville") (company identification number 87564) and Adelphia Business Solutions Atlantic, Inc. ("Adelphia Atlantic") (collectively the "Applicants"), by their undersigned counsel and pursuant to Tenn. Code Ann. § 65-4-113, respectfully request that the Tennessee Regulatory Authority ("Authority") approve the merger of Adelphia Tennessee with and into Adelphia Atlantic, and the transfer of control of Adelphia Nashville to Adelphia Atlantic. The proposed transaction, as an intra-corporate restructuring, will not result in any change of services to end users or the ultimate ownership or control of ongoing Tennessee operations.

In support of their Application, the Applicants provide the following information:

I. THE APPLICANTS

Adelphia Tennessee and Adelphia Atlantic are Delaware corporations and wholly-owned subsidiaries, either directly or indirectly, of Adelphia Business Solutions, Inc. ("ABSI"), a publicly-traded Delaware corporation headquartered at One North Main Street, Coudersport, Pennsylvania 16915. ABSI and its operating subsidiaries are in the process of building high-

speed, high-capacity advanced fiber optic networks to provide a package of services, including local and long distance telephone and data services to residential and business customers in Tennessee and throughout the United States. Adelphia Atlantic is authorized to provide facilities-based and resold local exchange and interexchange telecommunications services in the State of New York. Adelphia Tennessee is not certificated in any jurisdiction.

Adelphia Nashville is a Delaware limited partnership and is indirectly owned by ABSI. Adelphia Nashville is authorized to provide resold and facilities-based local exchange and interexchange services in the State of Tennessee.¹

Information concerning the legal, technical, managerial and financial qualifications of ABSI and its subsidiaries was submitted with the various application(s) filed with the Authority with respect to its subsidiaries currently operating in Tennessee, and is, therefore, already a matter of record with the Authority. The Applicants respectfully request that the Authority take official notice of this information and incorporate it by reference herein. For the Commission's convenience, updated financial information for the Applicants is attached hereto as Attachment A.

I. DESIGNATED CONTACTS

The designated contacts for purposes of this Application are:

Russell M. Blau
Michael P. Donahue
Swidler Berlin Shereff Friedman, LLP
3000 K Street, N.W., Suite 300
Washington, DC 20007
Phone: (202) 424-7683
Facsimile: (202) 295-8478

¹ *In re: Application of Hyperion Communications of Tennessee, L.P. for a Certificate of Public Convenience and Necessity to Provide Facilities-Based and Resold Local Exchange and Resold Interexchange Telecommunications Services throughout the State of Tennessee*, Order Granting Certificate of Public Convenience and Necessity, Docket No. 98-00732 (Dec. 6, 1999) and *In re: Application of Adelphia Business Solutions Operations, Inc. and Hyperion Communications of Tennessee, L.P. for Authority to Merge and Transfer Licenses as Part of a Pro Forma Corporate Restructuring*, Order Approving Transfer of Authority, Docket No. 00-00271 (June 29, 2000).

Copies of all correspondence, notices, inquiries and orders should be sent to:

John Glicksman, Esq.
Terry Romine, Esq.
Adelphia Business Solutions, Inc.
One North Main Street
Coudersport, Pennsylvania 16915
Telephone: (814) 260-3143
Facsimile: (814) 274-8243

II. DESCRIPTION OF THE TRANSACTION

As part of ABSI's ongoing efforts to streamline its operations in Tennessee and elsewhere, ABSI is merging Adelphia Tennessee into Adelphia Atlantic. As a result of the transaction, Adelphia Atlantic will also acquire Adelphia Tennessee's 95% ownership interest in Adelphia Nashville, resulting in a *pro forma* transfer of control of Adelphia Nashville. ABSI will remain the ultimate corporate parent of both Adelphia Atlantic and Adelphia Nashville.

This transaction is part of an internal corporate reorganization; it will not affect end-user services and will be virtually transparent to customers. Following the merger, Adelphia Nashville will continue to provide the end-user local switched services, switched and dedicated access services, and other telecommunications services that it currently provides. Therefore, consumers will continue to receive the same high-quality, innovative, and diversified telecommunications services, at the same rates, terms and conditions that they currently receive from Adelphia Nashville without interruption.

There will be no change in the ultimate ownership or control of the operating company in Tennessee or in the management or day-to-day operations in Tennessee. Adelphia Atlantic will be led by the same team of experienced telecommunications personnel that led Adelphia Tennessee and will continue to lead Adelphia Nashville. Thus, Adelphia Nashville will continue to provide service in Tennessee using the same network, billing systems and customer service operations as it currently uses.

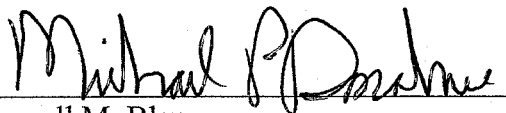
To the extent required, the Applicants respectfully request that the Authority approve the merger of Adelphia Tennessee and Adelphia Atlantic and the resulting transfer of control of Adelphia Nashville.

III. PUBLIC INTEREST STATEMENT

The merger of Adelphia Tennessee with and into Adelphia Atlantic is in the public interest. ABSI, the ultimate parent of Adelphia Tennessee and Adelphia Atlantic, has determined that the proposed corporate transfer will promote operational and administrative efficiencies for the ABSI companies. The transfer will provide benefits, both short and long term, for Tennessee ratepayers by providing increased competition, which promotes competitive rates for telecommunications services and stimulates the introduction of new and improved service offerings for all consumers. The transfer will be made in a seamless fashion that will not adversely affect the provision of telecommunications services in Tennessee, but will, in fact, increase the financial strength of the company providing service in Tennessee. The transfer is simply a paper transaction that will be transparent to consumers and will not in any way inconvenience or cause harm to customers.

WHEREFORE, the Applicants respectfully request that the Authority approve this Application for the merger of Adelpia Business Solutions of Tennessee, Inc. with and into Adelpia Business Solutions Atlantic, Inc. and the transfer of control of Adelpia Business Solutions of Nashville, LP, and grant any other authority that the Authority may deem necessary with respect to this request.

Respectfully submitted,

By: 

Russell M. Blau

Michael P. Donahue

Swidler Berlin Shereff Friedman, LLP

3000 K Street, N.W., Suite 300

Washington, D.C. 20007

Phone: (202) 424-7683

Fax: (202) 295-8478

Counsel for Applicants

Dated: November 16, 2001

INDEX OF ATTACHMENTS

| | |
|--------------|--|
| ATTACHMENT A | ADELPHIA BUSINESS SOLUTIONS, INC. FINANCIAL INFORMATION |
| ATTACHMENT B | VERIFICATION |

ATTACHMENT A

**ADELPHIA BUSINESS SOLUTIONS, INC.
FINANCIAL INFORMATION**

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

X Annual Report under Section 13 or 15(d) of the Securities Exchange Act
of 1934

For the Year Ended December 31, 2000

____ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange
Act of 1934 for the transition period

Commission File Number: 0-16014

ADELPHIA COMMUNICATIONS CORPORATION
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

23-2417713
(I.R.S. Employer
Identification No.)

One North Main Street
Coudersport, PA 16915-1141
(Address of principal executive offices) (Zip code)

814-274-9830
(Registrant's telephone number including area code)

Securities registered pursuant to Section 12(b) of the Act: None.

Securities registered pursuant to Section 12(g) of the Act:

Class A Common Stock, \$.01 par value.

Indicate by check mark whether the registrant (1) has filed all reports required
to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during
the preceding 12 months (or for such shorter period that the registrant was
required to file such reports), and (2) has been subject to such filing
requirements for the past 90 days.

Yes X No _____

Aggregate market value of outstanding Class A Common Stock par value \$0.01, held
by non-affiliates of the registrant at March 29, 2001 was \$5.1 billion based on
the closing sale price as computed by the NASDAQ National Market system as of
that date. For purposes of this calculation only, affiliates are deemed to be
directors and executive officers of the registrant.

At March 29, 2001, 153,439,270 shares of Class A Common Stock, par value \$0.01,
and 19,235,998 shares of Class B Common Stock, par value \$0.01, of the
registrant were outstanding.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405
of Regulation S-K is not contained herein, and will not be contained, to the
best of registrant's knowledge, in definitive proxy or information statements
incorporated by reference in Part III of the Form 10-K or any amendment to the
Form 10-K. X

| | | | | | | | | |
|----------------------------|---------|---------|----|----|----|----|---------|-------|
| Interest Rate Caps | -- | 400,000 | -- | -- | -- | -- | 400,000 | 150 |
| Average Cap Rate | -- | 7.25% | -- | -- | -- | -- | | |
| Interest Rate Collars | 100,000 | 100,000 | -- | -- | -- | -- | 200,000 | (166) |
| Maximum Cap Rate | 6.64% | 6.64% | -- | -- | -- | -- | | |
| Average Cap and Floor Rate | 5.95% | 6.30% | -- | -- | -- | -- | | |
| Minimum Floor Rate | 4.65% | 4.95% | -- | -- | -- | -- | | |

Interest rates on variable debt are estimated by us using the average implied forward London Interbank Offer Rate ("LIBOR") rates for the year of maturity based on the yield curve in effect at December 31, 2000, plus the borrowing margin in effect at December 31, 2000.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements of Adelphia and related notes thereto and independent auditors' report follow.

INDEX TO FINANCIAL STATEMENTS OF ADELPHIA COMMUNICATIONS CORPORATION AND SUBSIDIARIES

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|--|----|
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INDEPENDENT AUDITORS' REPORT

Adelphia Communications Corporation:

We have audited the accompanying consolidated balance sheets of Adelphia Communications Corporation and subsidiaries as of December 31, 1999 and 2000, and the related consolidated statements of operations and comprehensive income (loss), of convertible preferred stock, common stock and other stockholders' equity (deficiency), and of cash flows for the nine months ended December 31, 1998 and the years ended December 31, 1999 and 2000. Our audits also included the financial statement schedules listed in the Index at Item 14. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan

and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Adelphia Communications Corporation and subsidiaries at December 31, 1999 and 2000, and the results of their operations and their cash flows for the nine months ended December 31, 1998 and the years ended December 31, 1999 and 2000 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

DELOITTE & TOUCHE LLP

Pittsburgh, Pennsylvania
March 29, 2001

ADELPHIA COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share amounts)

| | December 31, | |
|--|---------------|---------------|
| | 1999 | 2000 |
| <hr/> | | |
| ASSETS | | |
| Property, plant and equipment - net | \$ 3,961,704 | \$ 6,124,820 |
| Intangible assets - net | 12,127,613 | 14,091,402 |
| Cash and cash equivalents | 186,874 | 124,634 |
| Restricted cash | -- | 54,178 |
| U.S. government securities - pledged | 29,899 | -- |
| Investments | 280,874 | 246,974 |
| Subscriber receivables - net | 194,399 | 248,582 |
| Prepaid expenses and other assets - net | 328,675 | 605,819 |
| Related party receivables - net | 178,577 | 3,071 |
| | <hr/> | |
| Total | \$ 17,288,615 | \$ 21,499,480 |
| | <hr/> | |
| LIABILITIES, PREFERRED STOCK, COMMON STOCK AND OTHER STOCKHOLDERS' EQUITY | | |
| Subsidiary debt | \$ 6,513,813 | \$ 9,179,773 |
| Parent debt | 2,777,919 | 3,423,640 |
| Accounts payable | 442,561 | 845,486 |
| Subscriber advance payments and deposits | 57,651 | 58,222 |
| Accrued interest and other liabilities | 495,564 | 706,217 |
| Deferred income taxes | 2,113,097 | 2,074,038 |
| | <hr/> | |
| Total liabilities | 12,400,605 | 16,287,376 |
| | <hr/> | |
| Minority interests | 736,497 | 616,223 |
| | <hr/> | |
| Adelphia Business Solutions redeemable exchangeable preferred stock | 260,848 | 297,067 |
| | <hr/> | |
| 13% Series B cumulative redeemable exchangeable preferred stock | 148,363 | 148,535 |
| | <hr/> | |
| Commitments and contingencies (Note 6) | | |

| | | |
|--|---------------|---------------|
| Convertible preferred stock, common stock and other stockholders' equity: | | |
| 8 1/8% Series C convertible preferred stock (\$100,000 liquidation preference) | 1 | -- |
| 5 1/2% Series D convertible preferred stock (\$575,000 liquidation preference) | 29 | 29 |
| Class A common stock, \$.01 par value, 1,200,000,000 shares authorized, 113,051,118 and 133,788,334 shares outstanding, respectively | 1,131 | 1,338 |
| Class B common stock, \$.01 par value, 300,000,000 shares authorized, 10,834,476 and 19,235,998 shares outstanding, respectively | 108 | 192 |
| Additional paid-in capital | 5,863,633 | 6,839,686 |
| Accumulated other comprehensive income (loss) | 3,239 | (16,362) |
| Accumulated deficit | (1,976,438) | (2,525,203) |
| Treasury stock, at cost, 1,091,524 shares of Class A common stock and 20,000 shares of 8 1/8% Series C convertible preferred stock | (149,401) | (149,401) |
| Convertible preferred stock, common stock and other stockholders' equity | 3,742,302 | 4,150,279 |
| Total | \$ 17,288,615 | \$ 21,499,480 |

See notes to consolidated financial statements.

ADELPHIA COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(Dollars in thousands, except per share amounts)

| | Nine Months Ended | | |
|---|-------------------|-------------------------|--------------|
| | December 31, | Year Ended December 31, | |
| | 1998 | 1999 | 2000 |
| Revenues | \$ 496,014 | \$ 1,287,968 | \$ 2,909,351 |
| Operating expenses: | | | |
| Direct operating and programming | 167,963 | 432,612 | 1,070,346 |
| Selling, general and administrative | 107,249 | 340,579 | 749,612 |
| Restructuring charges | -- | -- | 5,420 |
| Depreciation and amortization | 140,974 | 371,025 | 867,877 |
| Merger and integration costs | -- | 4,736 | -- |
| Total | 416,186 | 1,148,952 | 2,693,255 |
| Operating income | 79,828 | 139,016 | 216,096 |
| Other income (expense): | | | |
| Priority investment income from Olympus | 36,000 | 36,000 | -- |
| Interest expense - net (Note 2) | (180,452) | (359,585) | (922,865) |
| Equity in loss of Olympus and other joint ventures | (48,891) | (60,618) | (25,423) |
| Equity in loss of Adelphia Business Solutions joint ventures | (9,580) | (7,758) | (2,858) |
| Minority interest in net losses of subsidiaries | 25,772 | 38,699 | 138,531 |
| Adelphia Business Solutions preferred stock dividends | (21,536) | (32,173) | (36,219) |
| Gain on cable systems swap | 21,455 | -- | 37,552 |
| Other-than-temporary impairment of marketable equity securities | -- | -- | (109,605) |
| Other | 1,113 | 1,865 | (411) |
| Total | (176,119) | (383,570) | (921,298) |
| Loss before income taxes and extraordinary loss | (96,291) | (244,554) | (705,202) |
| Income tax benefit | 6,802 | 14,493 | 157,634 |
| Loss before extraordinary loss | (89,489) | (230,061) | (547,568) |
| Extraordinary loss on early retirement of debt (net of income taxes of \$7,200 in 1999) | (4,337) | (10,658) | -- |
| Net loss | (93,826) | (240,719) | (547,568) |
| Dividend requirements applicable to preferred stock | (20,718) | (41,963) | (54,916) |
| Net loss applicable to common stockholders | (114,544) | (282,682) | (602,484) |
| Other comprehensive income (loss) - unrealized gain (loss) on available-for-sale securities (net of income taxes of \$2,237 and \$50,164) | -- | 3,239 | (90,844) |
| Other-than-temporary impairment of marketable equity securities reclassification adjustment (net of income taxes of \$38,362) | -- | -- | 71,243 |

| | | | |
|---|--------------|--------------|--------------|
| Comprehensive loss | \$ (114,544) | \$ (279,443) | \$ (622,085) |
| Basic and diluted loss per weighted average share of common stock before extraordinary loss | \$ (3.04) | \$ (3.73) | \$ (4.45) |
| Basic and diluted extraordinary loss on early retirement of debt per weighted average share of common stock | (0.12) | (0.15) | -- |
| Basic and diluted net loss per weighted average share of common stock | \$ (3.16) | \$ (3.88) | \$ (4.45) |
| Weighted average shares of common stock outstanding (in thousands) | 36,226 | 72,824 | 135,515 |

See notes to consolidated financial statements.

ADELPHIA COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CONVERTIBLE PREFERRED STOCK, COMMON STOCK
AND OTHER STOCKHOLDERS' EQUITY (DEFICIENCY)
(Dollars in thousands)

| | Series C Convertible Preferred Stock | Series D Convertible Preferred Stock | Class A Common Stock | Class B Common Stock | Additional Paid-In Capital | Accumulated Other Comprehensive Income(loss) | Accumulated Deficit | Treasury Stock | Total |
|--|---|---|----------------------------|----------------------------|----------------------------------|---|------------------------|-------------------|----------------|
| Balance, March 31, 1998 | \$ 1 | \$ -- | \$ 200 | \$ 109 | \$ 331,263 | \$ -- | \$ (1,647,438) | \$ -- | \$ (1,315,865) |
| Adelphia Business Solutions issuance of Class A common stock | -- | -- | -- | -- | 146,440 | -- | -- | -- | 146,440 |
| Issuance of Class A common stock | -- | -- | 88 | -- | 267,838 | -- | -- | -- | 267,926 |
| Dividend requirements applicable to exchangeable preferred stock | -- | -- | -- | -- | (14,625) | -- | -- | -- | (14,625) |
| Dividend requirements applicable to convertible preferred stock | -- | -- | -- | -- | (6,093) | -- | -- | -- | (6,093) |
| Issuance of Class A common stock for affiliate cable television assets | -- | -- | 23 | -- | 77,085 | -- | -- | -- | 77,108 |
| Excess of purchase price over carrying value of cable television assets purchased from affiliate | -- | -- | -- | -- | (63,676) | -- | -- | -- | (63,676) |
| Conversion of Class B common stock into Class A common stock | -- | -- | 1 | (1) | -- | -- | -- | -- | -- |
| Other | -- | -- | 1 | -- | (130) | -- | 2,298 | -- | 2,169 |
| Net loss | -- | -- | -- | -- | -- | -- | (93,826) | -- | (93,826) |
| Balance, December 31, 1998 | \$ 1 | \$ -- | \$ 313 | \$ 108 | \$ 738,102 | \$ -- | \$ (1,738,966) | \$ -- | \$ (1,000,442) |
| Net proceeds from issuance of Class A common stock | -- | -- | 225 | -- | 1,186,290 | -- | -- | -- | 1,186,515 |
| Net proceeds from issuance of Series D Convertible Preferred stock | -- | 29 | -- | -- | 557,430 | -- | -- | -- | 557,459 |
| Adelphia Business Solutions issuance of Class A common stock | -- | -- | -- | -- | 109,015 | -- | -- | -- | 109,015 |
| Treasury stock purchase | -- | -- | -- | -- | -- | -- | -- | (149,401) | (149,401) |
| Dividend requirements applicable to exchangeable preferred stock | -- | -- | -- | -- | (19,500) | -- | -- | -- | (19,500) |
| Dividend requirements applicable to convertible preferred stock | -- | -- | -- | -- | (22,239) | -- | -- | -- | (22,239) |
| Issuance of Class A common stock in connection with acquisitions | -- | -- | 593 | -- | 3,336,145 | -- | -- | -- | 3,336,738 |
| Other comprehensive income | -- | -- | -- | -- | -- | 3,239 | -- | -- | 3,239 |
| Other | -- | -- | -- | -- | (21,610) | -- | 3,247 | -- | (18,363) |
| Net loss | -- | -- | -- | -- | -- | -- | (240,719) | -- | (240,719) |
| Balance, December 31, 1999 | \$ 1 | \$ 29 | \$ 1,131 | \$ 108 | \$ 5,863,633 | \$ 3,239 | \$ (1,976,438) | \$ (149,401) | \$ 3,742,302 |

See notes to consolidated financial statements.

ADELPHIA COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CONVERTIBLE PREFERRED STOCK, COMMON STOCK
AND OTHER STOCKHOLDERS' EQUITY (DEFICIENCY) (continued)
(Dollars in thousands)

| | Series C Convertible Preferred Stock | Series D Convertible Preferred Stock | Class A Common Stock | Class B Common Stock | Additional Paid-In Capital | Accumulated Other Comprehensive Income(loss) | Accumulated Deficit | Treasury Stock | Total |
|--|---|---|----------------------------|----------------------------|----------------------------------|---|------------------------|-------------------|--------------|
| Balance, December 31, 1999 | \$ 1 | \$ 29 | \$ 1,131 | \$ 108 | \$ 5,863,633 | \$ 3,239 | \$ (1,976,438) | \$ (149,401) | \$ 3,742,302 |
| Net proceeds from issuance of Class B common stock | -- | -- | -- | 84 | 519,452 | -- | -- | -- | 519,536 |
| Conversion of Series C convertible preferred stock into Class A common stock | (1) | -- | 94 | -- | (93) | -- | -- | -- | -- |
| Dividend requirements applicable to exchangeable preferred stock | -- | -- | -- | -- | (19,500) | -- | -- | -- | (19,500) |
| Dividend requirements applicable to convertible preferred stock | -- | -- | -- | -- | (35,416) | -- | -- | -- | (35,416) |
| Issuance of Class A common stock in connection with acquisitions | -- | -- | 109 | -- | 510,766 | -- | -- | -- | 510,875 |
| Issuance of Class A common stock to fund stock incentive plans | -- | -- | 2 | -- | 2,937 | -- | -- | -- | 2,939 |
| Options exercised for Class A common stock | -- | -- | 2 | -- | 4,346 | -- | -- | -- | 4,348 |
| Other comprehensive loss | -- | -- | -- | -- | -- | (19,601) | -- | -- | (19,601) |
| Other | -- | -- | -- | -- | (6,439) | -- | (1,197) | -- | (7,636) |
| Net loss | -- | -- | -- | -- | -- | -- | (547,568) | -- | (547,568) |
| Balance, December 31, 2000 | \$ -- | \$ 29 | \$ 1,338 | \$ 192 | \$ 6,839,686 | \$ (16,362) | \$ (2,525,203) | \$ (149,401) | \$ 4,150,279 |

See notes to consolidated financial statements.

ADELPHIA COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

| | Nine Months Ended December 31, | Year Ended December 31, | |
|---|--------------------------------------|-------------------------|--------------|
| | 1998 | 1999 | 2000 |
| Cash flows from operating activities: | | | |
| Net loss | \$ (93,826) | \$ (240,719) | \$ (547,568) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | | |
| Depreciation and amortization | 140,974 | 371,025 | 867,877 |
| Noncash interest expense | 23,663 | 52,068 | 144,384 |
| Noncash restructuring charges | -- | -- | 5,420 |
| Noncash dividends | 21,536 | 32,173 | 36,219 |
| Equity in loss of Olympus and other joint ventures | 48,891 | 60,618 | 25,423 |
| Equity in loss of Adelphia Business Solutions joint ventures | 9,580 | 7,758 | 2,858 |

| | | | |
|--|-------------|-------------|-------------|
| Gain on cable systems swap | (21,455) | -- | (37,552) |
| Gain on sale of investments | -- | (2,354) | -- |
| Minority interest in net losses of subsidiaries | (25,772) | (38,699) | (138,531) |
| Extraordinary loss on early retirement of debt - net of income tax benefit | 4,337 | 10,658 | -- |
| Other-than-temporary impairment of marketable equity securities | -- | -- | 109,605 |
| Decrease in deferred income taxes, net of effects of acquisitions | (6,510) | (18,179) | (176,582) |
| Changes in operating assets and liabilities, net of effects of acquisitions: | | | |
| Subscriber receivables | (19,874) | (70,110) | (49,965) |
| Prepaid expenses and other | (6,942) | (53,461) | (153,738) |
| Accounts payable | 31,029 | 232,991 | 395,766 |
| Subscriber advance payments and deposits | 1,678 | (14,594) | (1,956) |
| Accrued interest and other | 31,051 | 2,964 | 77,115 |
| Net cash provided by operating activities | 138,360 | 332,139 | 558,775 |
| Cash flows used for investing activities: | | | |
| Acquisitions, net of cash acquired | (403,851) | (2,178,037) | (1,880,800) |
| Expenditures for property, plant and equipment | (255,797) | (819,197) | (2,208,001) |
| Investments in Adelphia Business Solutions joint ventures | (69,018) | (24,496) | (10,375) |
| Investments in other joint ventures | (12,540) | (31,869) | (46,971) |
| Investments in fixed wireless licenses | -- | -- | (77,632) |
| Purchase of minority interest in Adelphia Business Solutions | (15,580) | -- | -- |
| Sale of U.S. government securities - pledged | 15,312 | 30,626 | 30,624 |
| Investments in restricted cash | -- | -- | (54,178) |
| Amounts (advanced to) received from related parties | (274,216) | (521,649) | 102,345 |
| Other | -- | 22,400 | 7,169 |
| Net cash used for investing activities | (1,015,690) | (3,522,222) | (4,137,819) |
| Cash flows from financing activities: | | | |
| Proceeds from debt | 836,176 | 3,184,579 | 7,179,972 |
| Repayments of debt | (269,778) | (1,971,534) | (4,096,030) |
| Costs associated with debt financings | (7,125) | (35,562) | (31,497) |
| Premium paid on early retirement of debt | (3,634) | (13,566) | -- |
| Issuance of Adelphia Business Solutions Class A common stock | 205,599 | 262,413 | -- |
| Issuance of Class A common stock | 275,880 | 1,215,999 | -- |
| Issuance of Class B common stock | -- | -- | 519,275 |
| Costs associated with issuances of common stock | (22,196) | (30,366) | -- |
| Issuance of convertible preferred stock | -- | 557,649 | -- |
| Payments to acquire treasury stock | -- | (149,401) | -- |
| Preferred stock dividends paid | (15,843) | (41,898) | (54,916) |
| Net cash provided by financing activities | 999,079 | 2,978,313 | 3,516,804 |
| Increase (decrease) in cash and cash equivalents | 121,749 | (211,770) | (62,240) |
| Cash and cash equivalents, beginning of period | 276,895 | 398,644 | 186,874 |
| Cash and cash equivalents, end of period | \$ 398,644 | \$ 186,874 | \$ 124,634 |
| Supplemental disclosure of cash flow activity - cash payments for interest | \$ 162,113 | \$ 331,427 | \$ 840,657 |

See notes to consolidated financial statements.

ADELPHIA COMMUNICATIONS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share amounts)

1. The Company and Basis for Consolidation

Adelphia Communications Corporation and subsidiaries ("Adelphia") owns, operates and manages cable television systems and other related telecommunications businesses. Adelphia's operations consist primarily of selling video programming which is distributed to subscribers for a monthly fee through a network of fiber optic and coaxial cables. These services are offered in the respective franchise areas under the name Adelphia. Adelphia Business Solutions, Inc. and subsidiaries ("Adelphia Business Solutions" or "ABIZ") is a consolidated subsidiary of Adelphia which owns, operates and manages entities which provide competitive local exchange carrier ("CLEC") telecommunications services under the name Adelphia Business Solutions.

On March 30, 1999, the Board of Directors of Adelphia changed Adelphia's fiscal year from March 31 to December 31. The decision was made to conform to general industry practice and for administrative purposes. The change became effective for the nine months ended December 31, 1998.

The consolidated financial statements include the accounts of Adelphia, its majority owned subsidiaries and subsidiaries that are 50% owned and controlled by Adelphia. All significant intercompany accounts and transactions have been eliminated in consolidation.

During the nine months ended December 31, 1998 and the years ended December 31, 1999 and 2000, Adelphia consummated several acquisitions and cable systems swaps, each of which was accounted for using the purchase method. Accordingly, the financial results of each acquisition have been included in the consolidated results of Adelphia effective from the date acquired.

On April 1, 1998, Adelphia exchanged its interest in its Mansfield, Ohio area systems, which served approximately 64,400 subscribers, and approximately \$11,000 cash for Time Warner Entertainment's interests in systems adjacent to systems owned or managed by Adelphia in Virginia, New England and New York, which served approximately 70,200 subscribers. As a result of this transaction, the Company recorded a gain of approximately \$21,455.

On July 31, 1998, Adelphia consummated its transaction with AT&T to form a joint venture limited partnership in the Western New York region. Pursuant to this agreement, Adelphia contributed its Western New York and Lorain, Ohio systems totaling approximately 298,000 subscribers and certain programming assets and \$440,000 in debt. Subsidiaries of AT&T contributed their cable systems in Buffalo, New York; Erie, Pennsylvania; and Ashtabula and Lake County, Ohio, totaling approximately 171,000 subscribers and \$228,000 in debt. Adelphia and AT&T hold a 66.7% and 33.3% interest, respectively, in the partnership. Adelphia manages the partnership.

On September 30, 1998, Adelphia merged one of its subsidiaries with the subsidiary of AT&T that held an interest in Syracuse Hilton Head Holdings, L.P. ("SHHH, L.P."), an Adelphia managed partnership controlled by the Rigas family, principal stockholders of Adelphia. Pursuant to the merger agreement, AT&T received 2,250,000 newly issued shares of Adelphia's Class A common stock. Simultaneously, SHHH, L.P. distributed certain cable systems, which served approximately 34,100 subscribers, in Virginia and North Carolina to Adelphia, in exchange for the interest acquired by Adelphia from AT&T as described above, Adelphia's preferred equity investment in SHHH, L.P. and certain affiliate receivables owed to Adelphia.

In addition to the acquisitions mentioned above, for the nine months ended December 31, 1998, Adelphia completed several other acquisitions. These acquisitions served approximately 75,250 basic subscribers at the date of acquisition primarily in southern New York, western Pennsylvania, Connecticut and Vermont and were purchased for an aggregate price of approximately \$163,500.

On January 21, 1999, Adelphia acquired Verto Communications, Inc. ("Verto") pursuant to a merger agreement among Adelphia, Verto and Verto's shareholders. These systems served approximately 56,000 subscribers in the greater Scranton, PA area at the date of acquisition. In connection with the Verto acquisition, Adelphia issued 2,561,024 shares of its Class A common stock to the former owners of Verto and assumed approximately \$35,000 of net liabilities of Verto.

On March 31, 1999, Adelphia Business Solutions consummated purchase agreements with subsidiaries of MediaOne of Colorado, Inc. ("MediaOne"), its local partner in the Jacksonville, FL and Richmond, VA networks, whereby MediaOne received approximately \$81,520 in cash for MediaOne's ownership interests in these networks. In addition, Adelphia Business Solutions will be responsible for the payment of fiber lease liabilities due to MediaOne in the amount of approximately \$14,500 over the next ten years. As a result of the

transactions, Adelphia Business Solutions' ownership interest in each of these networks increased to 100%.

On October 1, 1999, the partnership interests of Olympus Communications, L.P. ("Olympus") held by Telesat Cablevision, Inc., ("Telesat") a subsidiary of FPL Group, Inc. were redeemed. The redemption was made in exchange for noncash assets of Olympus of approximately \$100,000. As a result of this transaction, Adelphia's ownership in Olympus increased to 100% and Adelphia began to consolidate Olympus into its financial statements effective October 1, 1999.

On October 1, 1999, Adelphia acquired Century Communications Corp., ("Century") through a merger whereby Century was merged with and into a wholly owned subsidiary of Adelphia, Arahova Communications, Inc., ("Arahova") pursuant to an agreement and plan of merger, dated as of March 5, 1999, and as amended on July 12, 1999 and as further amended on July 29, 1999. In connection with the closing of the Century acquisition, Adelphia issued approximately 47,800,000 new shares of Adelphia Class A common stock and paid approximately \$811,900 to the stockholders of Century, and assumed approximately \$1,700,000 of debt. This transaction was approved by Century and Adelphia stockholders at their respective stockholders' meetings on October 1, 1999. As of October 1, 1999, Century had approximately 1,610,000 basic subscribers primarily in California, Puerto Rico, and throughout the United States after giving effect to Century's pending joint venture with AT&T, which closed on December 7, 1999. At the effective time of the merger, Adelphia also purchased Citizens Cable Company's 50% interest in the Citizens/Century Cable Television Joint Venture, one of Century's 50% owned joint ventures, for a purchase price of approximately \$131,900, comprised of approximately \$27,700 in cash, approximately 1,850,000 shares of Adelphia Class A common stock and the assumption of indebtedness. As of October 1, 1999, this joint venture served approximately 92,300 basic subscribers in California.

On October 1, 1999, Adelphia acquired FrontierVision Partners, L.P. ("FrontierVision"). As of October 1, 1999, FrontierVision served approximately 710,000 basic subscribers primarily in Ohio, Kentucky, New England and Virginia. In connection with the acquisition, Adelphia issued approximately 6,900,000 shares of its Class A common stock, assumed debt of approximately \$1,150,000 and paid cash of approximately \$543,300.

On October 1, 1999, Adelphia acquired Harron Communications Corp. ("Harron") for an aggregate price of approximately \$1,211,704. As of October 1, 1999, Harron served approximately 296,000 basic subscribers primarily in southeastern Pennsylvania, Michigan, Massachusetts and New Hampshire.

On December 7, 1999, subsidiaries of Arahova consummated a transaction with AT&T to form a joint venture limited partnership in the Los Angeles, CA area. Pursuant to this agreement, Arahova, Adelphia and AT&T contributed cable systems that served approximately 800,000 basic subscribers. Arahova and Adelphia hold a combined interest of 75% and AT&T holds a 25% interest in the partnership. As part of this transaction, Arahova and AT&T exchanged cable systems owned by Arahova in certain communities in northern California for certain cable systems owned by AT&T in southern California, allowing each of them to unify operations in existing service areas. AT&T exchanged its East San Fernando Valley cable system serving approximately 103,500 basic subscribers for Arahova's northern California cable systems (San Pablo, Benecia, Fairfield and Rohnert Park, California), serving approximately 96,500 basic subscribers. No gain or loss was recognized on this system swap due to the Company's application of purchase accounting in connection with the Arahova merger.

In addition to the acquisitions mentioned above, for the year ended December 31, 1999, Adelphia completed several other acquisitions. These acquisitions served approximately 136,700 basic subscribers at the date of acquisition primarily in Ohio, Virginia, Kentucky, Pennsylvania, California and West Virginia and were purchased for an aggregate price of approximately \$539,200.

The approximate aggregate purchase price for the significant 1999 acquisitions was comprised of the following:

| | | |
|--|----|-----------|
| Cash, net of cash acquired | \$ | 1,992,000 |
| Assumed debt and working capital liabilities | | 4,530,000 |
| Adelphia Class A common stock | | 3,337,000 |
| | | ----- |
| | \$ | 9,859,000 |
| | | ===== |

The value assigned to the Adelphia Class A common stock was based on the average closing price of Adelphia Class A common stock a few days before and after the respective acquisitions were agreed to and announced.

In 1999, the Company made a preliminary allocation of the purchase price based on estimated fair values. A final allocation of the purchase price was made upon receipt of final third party appraisals. The final allocation, which approximated the preliminary allocation, was as follows:

| | | |
|---|----|-------------|
| Property, plant and equipment | \$ | 1,827,236 |
| Intangible assets (primarily franchise) | | 10,961,533 |
| Other | | (2,929,769) |
| | | ----- |
| | \$ | 9,859,000 |
| | | ===== |

On May 1, 2000, Adelphia and AT&T completed a swap of cable systems serving approximately 13,000 basic subscribers. As a result of this transaction, the Company recorded a gain of \$37,552.

On July 5, 2000, Adelphia acquired Prestige Communications of NC, Inc. These systems served approximately 118,250 subscribers in North Carolina, Virginia and Maryland at the date of acquisition and were purchased for approximately \$700,000.

During July 2000, Adelphia Business Solutions consummated a purchase agreement with Allegheny Energy, Inc. ("Allegheny") to acquire interests in a jointly owned network located in State College, Pennsylvania. Consideration paid to Allegheny was 330,000 shares of Adelphia Business Solutions' Class A common stock.

On November 1, 2000, Adelphia acquired cable systems in the Cleveland, Ohio area from Cablevision Systems Corp. These systems served approximately 310,000 subscribers at the date of acquisition. In connection with the acquisition, Adelphia issued 10,800,000 shares of its Class A common stock and paid cash of approximately \$990,000. The value assigned to the Adelphia Class A common stock was based on the average closing price of Adelphia Class A common stock a few days before and after the number of shares to be issued became fixed.

In addition to the acquisitions mentioned above, for the year ended December 31, 2000, Adelphia completed several other acquisitions. These acquisitions served approximately 76,000 basic subscribers at the date of acquisition primarily in California, Colorado, Maine, New Hampshire and New York, and were purchased for an aggregate price of approximately \$174,000.

For acquisitions during the year ended December 31, 2000, the Company has made a preliminary allocation of the purchase price based on estimated fair

values. A final allocation will be based upon final appraisals.

The following unaudited financial information assumes that the significant acquisitions that were consummated during the year ended December 31, 1999 had occurred on April 1, 1998 and that the significant acquisitions that were consummated during the year ended December 31, 2000 had occurred on January 1, 1999.

| | Nine Months Ended December 31, 1998 | Year Ended December 31, 1999 | Year Ended December 31, 2000 |
|--|--|------------------------------------|------------------------------------|
| Revenues | \$ 1,583,431 | \$ 2,707,785 | \$ 3,078,818 |
| Loss before extraordinary loss | 348,417 | 722,760 | 671,417 |
| Net loss | 417,925 | 775,986 | 726,334 |
| Basic and diluted net loss per weighted average share of common stock | 4.38 | 6.15 | 5.03 |

Investment in Olympus Joint Venture Partnership

As described above, Adelphia's ownership in Olympus increased to 100% effective October 1, 1999, at which time Adelphia began to consolidate Olympus into its financial statements. Prior to October 1, 1999, Adelphia's investment in the partnership comprised both limited and general partner interests. The general partner interest represented a 50% voting interest in Olympus and was being accounted for using the equity method. Under this method, Adelphia's investment, initially recorded at the historical cost of contributed property, was adjusted for subsequent capital contributions and its share of the losses of the partnership as well as its share of the accretion requirements of the partnership's interests. The limited partner interest represented a preferred interest ("PLP interests") entitled to a 16.5% annual return. The PLP interests were nonvoting, were senior to claims of certain other partner interests, and provided for an annual priority return of 16.5%. Olympus was not required to pay the entire 16.5% return currently and priority return on PLP interests was recognized as income by Adelphia only when received. Correspondingly, equity in net loss of Olympus excluded accumulated unpaid priority return.

2. Significant Accounting Policies

Property, Plant and Equipment

Property, plant and equipment, at cost, are comprised of the following:

| | December 31, | |
|-------------------------------|--------------|--------------|
| | 1999 | 2000 |
| Operating plant and equipment | \$ 3,459,131 | \$ 4,511,245 |
| Telecommunications networks | 139,248 | 214,856 |
| Network monitoring | 431,078 | 760,784 |
| Real estate and improvements | 177,688 | 237,429 |
| Support equipment | 78,708 | 103,458 |

| | | |
|--------------------------|--------------|--------------|
| Construction in progress | 825,265 | 1,872,989 |
| | ----- | ----- |
| | 5,111,118 | 7,700,761 |
| Accumulated depreciation | (1,149,414) | (1,575,941) |
| | ----- | ----- |
| | \$ 3,961,704 | \$ 6,124,820 |
| | ===== | ===== |

Depreciation is computed on the straight-line method using estimated useful lives of 5 to 12 years for operating plant and equipment and 3 to 20 years for support equipment and real estate. Additions to property, plant and equipment are recorded at cost which includes amounts for material, applicable labor and overhead, and interest. Depreciation expense amounted to \$98,218, \$221,516 and \$459,086 for the nine months ended December 31, 1998 and the years ended December 31, 1999 and 2000, respectively. Capitalized interest amounted to \$11,285, \$25,135 and \$45,735 for the nine months ended December 31, 1998 and the years ended December 31, 1999 and 2000, respectively.

Intangible Assets

Intangible assets, at cost, net of accumulated amortization, are comprised of the following:

| | December 31, | |
|-----------------------------|---------------|---------------|
| | 1999 | 2000 |
| | ----- | ----- |
| Purchased franchises | \$ 9,496,354 | \$ 10,737,586 |
| Goodwill | 2,405,560 | 3,155,579 |
| Non-compete agreements | 15,382 | 15,160 |
| Purchased subscribers lists | 210,317 | 183,077 |
| | ----- | ----- |
| | \$ 12,127,613 | \$ 14,091,402 |
| | ===== | ===== |

A portion of the aggregate purchase price of systems acquired has been allocated to purchased franchises, purchased subscriber lists, goodwill and non-compete agreements. Purchased franchises and goodwill are amortized on the straight-line method over periods of up to 40 years. At December 31, 2000, the actual unexpired periods under purchased franchise agreements range from 1 to 15 years. Purchased subscriber lists are amortized on the straight-line method over periods which range from 5 to 10 years. Non-compete agreements are amortized on the straight-line method over their contractual lives which range from 4 to 12 years. Accumulated amortization of intangible assets amounted to \$617,235 and \$911,679 at December 31, 1999 and 2000, respectively.

Cash and Cash Equivalents

Adelphia considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Book overdrafts of \$35,000 and \$46,302 existed at December 31, 1999 and 2000, respectively. These book overdrafts were reclassified as accounts payable.

Restricted Cash

Restricted cash consists of highly liquid investments with an initial maturity date of three months or less reserved for the construction of the advanced information technology infrastructure under Adelphia Business Solutions' contract with the Pennsylvania government. The contract was entered into on May 3, 2000.

U.S. Government Securities - Pledged

U.S. Government Securities - Pledged consist of highly liquid investments which were used to pay the first six semi-annual interest payments of the Adelphia Business Solutions 12 1/4% Senior Secured Notes. Such investments were classified as held-to-maturity and the carrying value approximated market value as of December 31, 1999.

Investments

The equity method of accounting is generally used to account for investments which are 20% or more but not more than 50% owned. Under this method, Adelphia's initial investment is recorded at cost and subsequently adjusted for the amount of its equity in the net income or losses of its investees. Dividends or other distributions are recorded as a reduction of Adelphia's investment. Investments accounted for using the equity method generally reflect Adelphia's equity in the investee's underlying assets.

Investments in entities in which Adelphia's ownership is less than 20% and equity securities that do not have a readily determinable fair value are generally accounted for using the cost method. Under the cost method, Adelphia's initial investment is recorded at cost and subsequently adjusted for the excess, if any, of dividends or other distributions received over its share of cumulative earnings. Dividends received in excess of earnings subsequent to the date the investment was made are recorded as reductions of the cost of the investment.

Investments accounted for as available-for-sale securities are those that the Company intends to hold for an indefinite period of time. Within the available-for-sale category, equity securities with a readily determinable fair value are reported at fair value, with unrealized gains and losses, net of tax,

included in other comprehensive income (loss). The Company recognized losses of \$109,605 in 2000 which resulted from the write-down of certain available-for-sale securities, which experienced a decline in value that was deemed other than temporary. Realized gains and losses, which are computed using the specific identification method, and unrealized losses in individual securities that are deemed to be other than temporary are recorded as a loss on investment.

Adelphia's nonconsolidated investments are as follows:

Investments accounted for using the equity method:
Gross investment:

| | December 31, | |
|---|--------------|-----------|
| | 1999 | 2000 |
| Adelphia Business Solutions' joint ventures | \$ 61,400 | \$ 64,300 |
| Mobile communications | 19,865 | 23,391 |
| Media ventures | 10,627 | 16,508 |
| Other | 1,430 | 2,920 |
| Total | 93,322 | 107,119 |

Investments accounted for using the cost method:

| | | |
|-------------------------------|---------|---------|
| Niagara Frontier Hockey, L.P. | 47,533 | -- |
| Benbow PCS Ventures, Inc. | 17,192 | -- |
| Convertible preferred stock | 87,433 | 94,780 |
| Interactive Ventures | -- | 41,946 |
| Other | 12,972 | 19,865 |
| Total | 165,130 | 156,591 |

Investments accounted for as available-for-sale securities:
Common stock and common stock warrants

| | |
|--------|--------|
| 49,890 | 36,602 |
|--------|--------|

Total investments before cumulative equity in net losses
Cumulative equity in net losses

| | |
|----------|----------|
| 308,342 | 300,312 |
| (27,468) | (53,338) |

Total investments

| | | | |
|----|---------|----|---------|
| \$ | 280,874 | \$ | 246,974 |
|----|---------|----|---------|

As a result of the acquisition of Arahova, Adelphia obtained approximately 113,983 shares of United International Holdings, Inc. ("UIH") Series B convertible preferred stock. Each share of this stock is convertible into approximately 21 shares of UIH Class A common stock, at a conversion price of \$10.625 per share. For the years ended December 31, 1999 and 2000, Adelphia recognized investment income of \$0 and \$7,347 related to this convertible stock, respectively. Adelphia's investment in UIH convertible preferred stock amounted to \$75,756 and \$83,103 at December 31, 1999 and 2000, respectively.

In July 2000, certain members of the Rigas family closed on their agreement to acquire all the voting interests of Niagara Frontier Hockey, L.P. ("NFHLP"). In conjunction with the closing of this agreement, Adelphia's Capital Funding Notes of NFHLP were converted to a \$46,500, 10% partially subordinated note due in July 2010. Concurrently with the recapitalization of NFHLP, Adelphia also purchased a \$30,000, 10% fully subordinated note due July 2010. Both notes pay interest quarterly with principal due at maturity. These notes receivable are included in prepaid expenses and other assets as of December 31, 2000.

As a result of a contract between Arahova and At Home Corporation ("@Home") to provide @Home high speed internet access on certain systems, Adelphia has received a warrant contract to purchase up to 5,260,000 shares of @Home Series A common stock at \$5.25 per share. The Company records an investment in @Home and related deferred revenue based on the fair value of the warrants at the time which performance requirements under the contract with @Home are achieved. Corresponding revenue is recognized on the straight-line basis over the remaining life of the contract, which expires in May 2004. The investment in @Home warrants is classified as an available-for-sale security. For the years ended December 31, 1999 and 2000, Adelphia recognized revenue of \$1,500 and \$16,450 related to these warrants, respectively. Adelphia's investment in @Home warrants amounted to \$34,366 and \$16,243 at December 31, 1999 and 2000, respectively. Adelphia recorded a write down of its investment in @Home of \$94,179 during the year ended December 31, 2000 because the decline in fair value was deemed to be other than temporary.

Pursuant to an agreement dated December 16, 1997, Adelphia received 325,259 warrants to purchase shares of General Instruments ("GI") common stock in connection with the purchase of digital converters. Each warrant enables Adelphia to purchase one share of GI common stock. On January 5, 2000, GI merged with a wholly owned subsidiary of Motorola, Inc. ("Motorola"). As a result of this merger, each GI warrant was converted into a warrant to purchase Motorola common stock at a ratio of .575 to 1. Additionally, on February 29, 2000, Motorola declared a 3-for-1 stock split. On June 30, 2000, Adelphia exercised 62,340 of these warrants for 187,020 shares of Motorola common stock. As of December 31, 2000, Adelphia has 124,682 of these warrants outstanding, of which 62,341 expire June 30, 2001 and 2002. As of December 31, 1999 and 2000, Adelphia's investment in the warrants totaled \$15,524 and \$4,698, respectively, and includes an unrealized gain of \$7,830 and an unrealized loss of \$2,995, respectively. As of December 31, 2000, Adelphia's investment in Motorola common stock totaled \$3,787 and includes an unrealized gain of \$2,242. These warrants are recorded at fair value as a reduction of the cost of such converters when earned.

Pursuant to an agreement dated June 29, 1998, Adelphia sold its stock in Page Call, Inc. ("Page Call") to Benbow PCS Ventures, Inc. ("Benbow"). In exchange for the Page Call stock, Adelphia received 1,731,964 shares of Benbow Series A Redeemable Preferred Stock, convertible into 2,826,629 shares of Arch Communications Group, Inc. (now known as Arch Wireless, Inc.) ("Arch") Class A common stock. On April 7, 2000, Adelphia converted its Benbow stock into Arch stock and recorded an unrealized gain of \$4,539. Adelphia's investment in Benbow

and Arch amounted to \$17,192 and \$1,767, respectively, at December 31, 1999 and 2000, respectively. The investment is classified as an available-for-sale security. Adelphia recorded a write down of its investment in Arch of \$15,426 during the year ended December 31, 2000 because the decline in fair value was deemed to be other than temporary.

Adelphia has agreements with various interactive television ventures. Under the terms of these agreements, Adelphia has received non-refundable warrants to purchase common stock, convertible preferred stock and the right to purchase certain common stock at a discount. Adelphia has also agreed to deploy the interactive television services in certain markets over periods of approximately one year to five years, as provided in the various agreements. The Company records an investment and deferred revenue for the fair value of the non-refundable consideration received. Corresponding revenue is recognized on the straight-line basis over the remaining lives of the respective agreements, which expire on various dates through July 2005. Adelphia's investment in such companies as of December 31, 2000 was \$30,704, which includes \$14,737 of unrealized loss.

Subscriber Receivables

An allowance for doubtful accounts of \$17,796 and \$57,672 is recorded as a reduction of subscriber receivables at December 31, 1999 and 2000, respectively.

Amortization of Other Assets and Debt Discounts

Deferred debt financing costs, included in prepaid expenses and other assets, and debt discounts, a reduction of the carrying amount of the debt, are amortized over the term of the related debt. The unamortized amounts of deferred debt financing costs included in prepaid expenses and other assets were \$117,838 and \$129,018 at December 31, 1999 and 2000, respectively. The aggregate amount by which fair value assigned in purchase accounting to debt and interest rate swaps exceeded or was less than carrying value at the acquisition date is being amortized over the respective remaining 1 to 18 year lives of the underlying debt obligations.

Other Assets - net

Included in prepaid expenses and other assets - net at December 31, 1999 and 2000 is \$44,605 and \$122,504 regarding licenses of spectrum for a fixed wireless technology known as local multipoint distribution service ("LMDS"), which is being amortized on a straight-line basis over 10 years which is the life of the licenses.

Asset Impairments

Adelphia periodically reviews the carrying value of its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of assets may not be recoverable. Measurement of any impairment would include a comparison of estimated future operating cash flows anticipated to be generated during the remaining life of the assets with their net carrying value. An impairment loss would be recognized as the amount by which the carrying value of the assets exceeds their fair value.

Revenues

Subscriber revenues are recorded in the month the service is provided. Advertising revenue is recognized in the period during which the underlying advertisements are broadcast. Adelphia Business Solutions recognizes revenue from communications services in the month the related service is provided. Revenues on billings to customers for services in advance of providing such services are deferred and recognized when earned. Reciprocal compensation revenue is an element of switched service revenue, which represents compensation for Local Exchange Carriers ("LECs") for local exchange traffic originated by other LECs terminated on Adelphia Business Solutions' facilities. Adelphia

Business Solutions recognizes revenue based upon established contracts with the LECs and has established a reserve for a portion of those revenues that are under dispute.

Franchise Expense

The typical term of Adelphia's franchise agreements upon renewal is 10 to 15 years. Franchise fees range from 3% to 5% of certain subscriber revenues and are expensed currently.

Interest Expense - Net

Interest expense - net includes interest income of \$20,952, \$97,797 and \$60,868 for the nine months ended December 31, 1998 and the years ended December 31, 1999 and 2000, respectively. Interest income includes interest income from liquid investments, from affiliates on long-term loans and for reimbursement of interest expense on revolving credit agreements, related to short term borrowings by such affiliates (Note 13).

Interest Rate Swaps, Caps and Collar Agreements

Net settlement amounts under interest rate swaps, caps and collar agreements are recorded as adjustments to interest expense during the period incurred (Note 4).

Basic and Diluted Net Loss Per Weighted Average Share of Common Stock

Basic net loss per weighted average share of common stock is computed based on the weighted average number of common shares outstanding after giving effect to dividend requirements on Adelphia's preferred stock. Diluted net loss per weighted average common share is equal to basic net loss per weighted average common share because Adelphia's convertible preferred stock had an antidilutive effect for the periods presented; however, the convertible preferred stock could have a dilutive effect on earnings per share in future periods.

Noncash Financing and Investing Activities

Capital leases entered into during the nine months ended December 31, 1998 and the years ended December 31, 1999 and 2000 totaled \$15,522, \$10,034 and \$58,071, respectively, for Adelphia, excluding Adelphia Business Solutions. Adelphia Business Solutions entered into capital leases totaling \$1,156, \$5,772 and \$17,747, respectively, during the nine months ended December 31, 1998 and the years ended December 31, 1999 and 2000. Reference is made to Notes 1, 2 and 7 for descriptions of additional noncash financing and investing activities.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires

management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain December 31, 1998 and 1999 amounts have been reclassified to conform with the December 31, 2000 presentation.

Recent Accounting Pronouncements

Statement of Financial Accounting Standards ("SFAS") No. 133,

"Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133", and by SFAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," is effective for the Company as of January 1, 2001. SFAS No. 133, as amended, establishes accounting and reporting standards requiring that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value with changes in fair value reflected in the statement of operations or other comprehensive income. In conjunction with preparing for the implementation of this standard, the Company has determined that its derivative instruments are primarily in the form of interest rate protection instruments such as interest rate swaps, caps and collars and common stock purchase warrants. The adoption of this statement or any transition adjustment will not have a significant effect on the Company's consolidated results of operations or financial position.

3. Related Party Investments and Receivables

Related party receivables - net represent advances to managed entities (Note 13), John J. Rigas and certain members of his immediate family (collectively, the "Rigas family"), including entities they own or control (the "Managed Entities"). No related party advances are collateralized.

As described in Note 1, effective October 1, 1999, Adelphia's ownership interest in Olympus increased to 100%. The information below is for the year ended December 31, 1998, when Adelphia accounted for Olympus under the equity method.

Olympus' results of operations for the year ended December 31, 1998 are summarized as follows:

| | December 31, 1998 |
|---|----------------------|
| Revenues | \$ 215,642 |
| Operating income | 38,944 |
| Net loss | (16,074) |
| Net loss of general and limited partners after priority return | (105,530) |

4. Debt Subsidiary Debt

| | December 31, 1999 | December 31, 2000 |
|---------------------------------|----------------------|----------------------|
| Notes to banks and institutions | \$ 3,088,477 | \$ 5,708,529 |
| Subsidiary public debt | 3,337,376 | 3,322,334 |
| Other debt | 87,960 | 148,910 |
| Total subsidiary debt | \$ 6,513,813 | \$ 9,179,773 |

Notes to Banks and Institutions

Borrowings under most of these credit arrangements of subsidiaries are collateralized by a pledge of the stock in their respective subsidiaries, and, in some cases, by other assets. These agreements limit, among other things,

additional borrowings, investments, transactions with affiliates and other subsidiaries, and the payment of dividends and fees by the subsidiaries. The agreements also require maintenance of certain financial ratios by the subsidiaries. At December 31, 2000, approximately \$1,106,656 of the net assets of subsidiaries would be permitted to be transferred to the parent company in the form of dividends and loans without the prior approval of the lenders based upon the results of operations of such subsidiaries for the quarter ended December 31, 2000. The subsidiaries are permitted to pay management fees to the parent company or other subsidiaries. Such fees are limited to a percentage of the subsidiaries' revenues.

Certain subsidiaries of Adelphia are co-borrowers with Managed Entities under credit facilities for borrowings of up to \$3,751,250. Each of the co-borrowers is liable for all borrowings under the credit agreements, and may borrow up to the entire amount of the available credit under the facility. The lenders have no recourse against Adelphia other than against Adelphia's interest in such subsidiaries.

Notes to banks and institutions mature at various dates through 2009. Bank debt interest rates are based upon one or more of the following rates at the option of Adelphia: prime rate plus 0% to 1.5%; certificate of deposit rate plus 1.25% to 2.75%; or LIBOR plus .625% to 2.5%. Total bank debt with interest rates under these options was approximately \$3,073,102 and \$5,662,724 at December 31, 1999 and 2000, respectively. At December 31, 1999 and 2000, the weighted average interest rate on notes payable to banks and institutions was 7.72% and 7.90%, respectively. At December 31, 1999 and 2000, the rates on 26.2% and 11.2%, respectively, of Adelphia's notes payable to banks and institutions were fixed for at least one year through the terms of the notes or interest rate swap, cap or collar agreements. Adelphia pays commitment fees of up to 0.5% of unused principal.

During the year ended December 31, 1999, Adelphia redeemed \$37,815 aggregate principal amount of subsidiary notes to banks and institutions. As a result of this transaction, Adelphia recognized an extraordinary loss on early retirement of debt of \$2,441.

Subsidiary Public Debt

Interest on subsidiary public debt is generally due semi-annually. The subsidiary public debt is effectively subordinated to all liabilities of subsidiary notes to banks and institutions and is senior to the parent debt. The subsidiary public debt agreements contain restrictions on, among other things, the incurrence of indebtedness, mergers and sale of assets, certain restricted payments, investments in affiliates and certain other affiliate transactions. The agreements also require maintenance of certain financial ratios.

The following table summarizes the subsidiary public debt:

| Subsidiary | Interest Rate | Issue Date | Amount Issued | Outstanding as of | | Maturity Date | First Call Date | First Call Rate |
|----------------|---------------|------------|---------------|-----------------------|-----------------------|---------------|-----------------|-----------------|
| | | | | December 31, 1999 (a) | December 31, 2000 (a) | | | |
| ABIZ | 13.000% | 04/15/96 | 329,000 | \$ 253,860 | \$ 291,891 | 04/15/03 | 04/15/01 | 106.500% |
| ABIZ | 12.250% | 08/27/97 | 250,000 | 250,000 | 250,000 | 09/01/04 | 09/01/01 | 106.125% |
| ABIZ | 12.000% | 03/02/99 | 300,000 | 300,000 | 300,000 | 11/01/07 | 11/01/03 | 106.000% |
| Olympus | 10.625% | 11/12/96 | 200,000 | 203,537 | 203,020 | 11/15/06 | 11/15/01 | 105.313% |
| FrontierVision | 11.000% | 10/02/96 | 200,000 | 212,541 | 210,706 | 10/15/06 | 10/15/01 | 105.500% |
| FrontierVision | 11.875% | 09/16/97 | 237,650 | 205,979 | 228,519 | 09/15/07 | 09/15/01 | 107.917% |
| FrontierVision | 11.875% | 12/02/98 | 91,298 | 78,522 | 84,820 | 09/15/07 | 09/15/01 | 107.917% |
| Arahova | 9.500% | 08/14/92 | 150,000 | 148,773 | -- | 08/15/00 | Non-call | N/A |
| Arahova | 9.750% | 02/15/92 | 200,000 | 201,172 | 201,005 | 02/15/02 | Non-call | N/A |
| Arahova | Zero coupon | 04/01/93 | 444,000 | 318,234 | 354,392 | 03/15/03 | Non-call | N/A |
| Arahova | 9.500% | 03/06/95 | 250,000 | 250,852 | 250,950 | 03/01/05 | Non-call | N/A |
| Arahova | 8.875% | 01/17/97 | 250,000 | 242,542 | 243,805 | 01/15/07 | Non-call | N/A |
| Arahova | 8.750% | 09/23/97 | 225,000 | 216,105 | 217,440 | 10/01/07 | Non-call | N/A |
| Arahova | 8.375% | 11/07/97 | 100,000 | 94,048 | 94,420 | 11/15/17 | Non-call | N/A |
| Arahova | 8.375% | 12/04/97 | 100,000 | 94,106 | 94,930 | 12/15/07 | Non-call | N/A |

| | | | | | | | | |
|---------|-------------|----------|---------|--------------|--------------|----------|----------|-----|
| Arahova | Zero coupon | 01/08/98 | 605,000 | 267,105 | 296,436 | 01/15/08 | Non-call | N/A |
| | | | | \$ 3,337,376 | \$ 3,322,334 | | | |

(a) Amounts outstanding include discounts or premiums recorded as a result of purchase accounting, if applicable.

Other Subsidiary Debt

As of December 31, 1999 and 2000, other debt consists of capital leases that were incurred in connection with the acquisition of, and are collateralized by, certain equipment. The interest rate on such debt is based on various published rates, such as the Federal Funds or U.S. Treasury rates, plus applicable margin.

Parent Debt

Interest on the Parent Debt is due semi-annually. The Parent Debt is effectively subordinated to all liabilities of the subsidiaries and the agreements contain restrictions on, among other things, the incurrence of indebtedness, mergers and sale of assets, certain restricted payments by Adelphia, investments in affiliates and certain other affiliate transactions. The agreements further require that Adelphia maintain a ratio of debt to annualized operating cash flow not greater than 8.75 to 1.00, based on the latest fiscal quarter. Net proceeds from the issuance of notes during the years ended December 31, 1999 and 2000 were used to reduce amounts outstanding on Adelphia's subsidiaries' notes payable to banks and to purchase, redeem or otherwise retire all or a portion of the 9 1/2% Senior Notes Paid-In-Kind due 2004 and 11 7/8% Senior Debentures due 2004. The 1999 retirement resulted in a loss on early retirement of debt, net of income tax benefit, of \$6,778.

The following table summarizes the parent debt:

| Interest Rate | Issue Date | Amount Issued | Outstanding as of | | Maturity Date | First Call Date | First Call Rate |
|---------------|------------|---------------|-------------------|-------------------|---------------|-----------------|-----------------|
| | | | December 31, 1999 | December 31, 2000 | | | |
| 10 1/4% | 07/28/93 | \$ 110,000 | \$ 99,872 | \$ -- | 07/15/00 | Non-call | N/A |
| 9 1/4% | 09/25/97 | 325,000 | 325,000 | 325,000 | 10/01/02 | Non-call | N/A |
| 9 1/2% (a) | 02/15/94 | 150,000 | 31,847 | 31,847 | 02/15/04 | 2/15/99 | 103.56% |
| 10 1/2% | 07/07/97 | 150,000 | 150,000 | 150,000 | 07/15/04 | Non-call | N/A |
| 9 7/8% | 03/11/93 | 130,000 | 128,711 | 128,944 | 03/01/05 | Non-call | N/A |
| 9 7/8% | 02/26/97 | 350,000 | 347,791 | 348,033 | 03/01/07 | Non-call | N/A |
| 8 3/8% | 01/21/98 | 150,000 | 149,259 | 149,326 | 02/01/08 | Non-call | N/A |
| 8 3/8% | 11/12/98 | 150,000 | 150,000 | 150,000 | 02/01/08 | Non-call | N/A |
| 8 1/8% | 07/02/98 | 150,000 | 149,419 | 149,575 | 07/15/03 | Non-call | N/A |
| 7 1/2% | 01/13/99 | 100,000 | 100,000 | 100,000 | 01/15/04 | Non-call | N/A |
| 7 3/4% | 01/13/99 | 300,000 | 300,000 | 300,000 | 01/15/09 | Non-call | N/A |
| 7 7/8% | 04/28/99 | 350,000 | 350,000 | 350,000 | 05/01/09 | Non-call | N/A |
| 9 3/8% | 11/16/99 | 500,000 | 496,020 | 496,451 | 11/15/09 | Non-call | N/A |
| 10 7/8% | 09/20/00 | 750,000 | -- | 744,464 | 10/01/10 | Non-call | N/A |
| | | | \$ 2,777,919 | \$ 3,423,640 | | | |

(a) These Senior Notes are Pay-in-Kind with respect to interest payments at the option of Adelphia.

Maturities of Debt

The following table sets forth the mandatory reductions in principal under all debt agreements for each of the next five years based on amounts outstanding at December 31, 2000:

Year ending December 31:

| | |
|------|------------|
| 2001 | \$ 306,006 |
| 2002 | 986,866 |
| 2003 | 1,506,454 |
| 2004 | 1,244,571 |
| 2005 | 1,360,647 |

The above amounts exclude the short term secured revolving credit facility that closed on January 3, 2001. Adelphia intends to fund its requirements for maturities of debt through borrowings under new and existing credit arrangements and internally generated funds. Changing conditions in the financial markets may have an impact on how Adelphia will refinance its debt in the future.

Interest Rate Swaps, Caps and Collar Agreements

Adelphia has entered into interest rate swaps, caps and collar agreements with banks, Olympus (prior to October 1, 1999) and Managed Entities (Note 13) to reduce the impact of changes in interest rates on its debt. Several of Adelphia's credit arrangements include provisions which require interest rate protection for a portion of its debt. Adelphia enters into pay-fixed swap agreements to effectively convert a portion of its variable-rate debt to fixed-rate debt to reduce the risk of incurring higher interest costs due to rising interest rates. Adelphia enters into receive-fixed swap agreements to effectively convert a portion of its fixed-rate debt to variable-rate debt which is indexed to LIBOR to reduce the risk of incurring higher interest costs in periods of falling interest rates. Interest rate cap and collar agreements are used to reduce the impact of increases in interest rates on variable-rate debt. Adelphia is exposed to market risk in the event of nonperformance by the banks or by the Managed Entities. Adelphia does not expect any such nonperformance.

The following table summarizes the notional amounts outstanding and weighted average interest rate data, based on variable rates in effect at December 31, 1999 and 2000, for these swaps, caps and collar agreements, which expire through 2008.

| | December 31, | |
|----------------------|--------------|-----------|
| | 1999 | 2000 |
| Pay Fixed Swaps: | | |
| Notional amount | \$ 115,000 | \$ 75,000 |
| Average receive rate | 6.24% | 6.13% |
| Average pay rate | 6.68% | 6.86% |
| Receive Fixed Swaps: | | |
| Notional amount | \$ 80,000 | \$ 80,000 |
| Average receive rate | 6.35% | 6.86% |
| Average pay rate | 5.86% | 6.33% |
| Interest Rate Caps: | | |

| | | |
|----------------------------|------------|------------|
| Notional amount | \$ 400,000 | \$ 400,000 |
| Average cap rate | 7.25% | 7.25% |
| Interest Rate Collars: | | |
| Notional amount | \$ 200,000 | \$ 200,000 |
| Average cap and floor rate | 6.13% | 6.13% |
| Maximum cap rate | 6.64% | 6.64% |
| Maximum floor rate | 4.80% | 4.80% |

On September 17, 1999, a subsidiary of Adelphia terminated a \$400,000 interest rate swap agreement with a financial institution, which resulted in a \$15,200 gain that has been deferred and included in accrued interest and other liabilities in the accompanying 1999 consolidated balance sheet. The amortization of the deferred gain, which amounted to \$558 and \$1,952 in 1999 and 2000, respectively, is being recognized as an adjustment to interest expense over the term of the related debt.

5. Redeemable Preferred Stock

12 7/8% Adelphia Business Solutions Redeemable Exchangeable Preferred Stock

On October 9, 1997, Adelphia Business Solutions issued \$200,000 aggregate liquidation preference of 12 7/8% Senior Exchangeable Redeemable Preferred Stock due October 15, 2007. Dividends are payable quarterly commencing January 15, 1998 at 12 7/8% of the liquidation preference of outstanding preferred stock. Through October 15, 2002, dividends are payable in cash or additional shares of preferred stock at Adelphia Business Solutions' option. Subsequent to October 15, 2002, dividends are payable in cash. The preferred stock ranks junior in right of payment to all indebtedness of Adelphia Business Solutions, its subsidiaries and Joint Ventures. On or after October 15, 2002, Adelphia Business Solutions may redeem, at its option, all or a portion of the preferred stock at 106.438% of the liquidation preference thereof declining to 100% of the liquidation preference in 2005 plus accrued interest. Adelphia Business Solutions is required to redeem all of the shares of preferred stock outstanding on October 15, 2007 at a redemption price equal to 100% of the liquidation preference thereof, plus, without duplication, accumulated and unpaid dividends to the date of redemption. The preferred stock contains restrictions and covenants similar to subsidiary public debt.

Adelphia Business Solutions may, at its option, on any dividend payment date, exchange in whole, but not in part, the then outstanding shares of preferred stock for 12 7/8% Senior Subordinated Debentures due October 15, 2007 which have provisions consistent with the provisions of the preferred stock. Adelphia Business Solutions has to date satisfied the dividend requirements on this preferred stock by issuing additional shares.

13% Redeemable Exchangeable Preferred Stock

On July 7, 1997, Adelphia issued \$150,000 aggregate liquidation preference of 13% Cumulative Exchangeable Preferred Stock due July 15, 2009. Dividends are payable semi-annually at 13% of the liquidation preference of outstanding preferred stock. Dividends are payable in cash with any accumulated unpaid dividends bearing interest at 13% per annum. The preferred stock ranks junior in right of payment to all indebtedness of Adelphia. On or after July 15, 2002, Adelphia may redeem, at its option, all or a portion of the preferred stock at 106.500% of the liquidation preference thereof declining to 100% of the liquidation preference in 2008. Adelphia is required to redeem all of the shares of preferred stock outstanding on July 15, 2009 at a redemption price equal to 100% of the liquidation preference thereof, plus, without duplication, accumulated and unpaid dividends to the date of redemption. The preferred stock contains restrictions and covenants similar to Adelphia's parent debt.

Adelphia may, at its option, on any dividend payment date, exchange in whole or in part (subject to certain restrictions), the then outstanding shares

of preferred stock for 13% Senior Subordinated Exchange Debentures due July 15, 2009 which have provisions consistent with the provisions of the preferred stock. Adelphia paid cash dividends on this preferred stock of \$9,750, \$19,500 and \$19,500 during the nine months ended December 31, 1998 and the years ended December 31, 1999 and 2000, respectively.

No mandatory redemptions of redeemable preferred stock of Adelphia are required for the next five years as of December 31, 2000.

6. Commitments and Contingencies

Adelphia rents office and studio space, tower sites, and space on utility poles under leases with terms which are generally less than one year or under agreements that are generally cancelable on short notice. Total rental expense under all operating leases aggregated \$8,054, \$27,713 and \$65,516 for the nine months ended December 31, 1998 and the years ended December 31, 1999 and 2000, respectively.

In connection with certain obligations under franchise agreements, Adelphia obtains surety bonds guaranteeing performance to municipalities and public utilities. Payment is required only in the event of nonperformance. Management believes Adelphia has fulfilled all of its obligations such that no payments under surety bonds have been required.

Adelphia Business Solutions has entered into a series of agreements with several local and long-haul fiber optic network providers. These agreements provide Adelphia Business Solutions with ownership or an IRU to local and long-haul fiber optic cable. Management of Adelphia Business Solutions believes this will allow it to expand its business strategy to include on-net provisioning of regional, local and long distance, internet and data communications and to cost-effectively further interconnect its markets in the eastern half of the United States.

The estimated obligations under these long haul fiber arrangements as of December 31, 2000 are approximately:

Period ending December 31,

| | |
|------------|------------|
| 2001 | \$ 111,270 |
| 2002 | 22,408 |
| 2003 | 895 |
| 2004 | 897 |
| 2005 | 898 |
| Thereafter | 18,304 |

In addition to the amount due under the agreements for the fiber optic cable, Adelphia Business Solutions is also required to pay certain fiber optic network providers for pro-rated maintenance and rights of ways fees on a yearly basis.

The cable television industry and Adelphia are subject to extensive regulation at the federal, state and local levels. Pursuant to the 1992 Cable Act, which significantly expanded the scope of regulation of certain subscriber

rates and a number of other matters in the cable industry the FCC adopted rate regulations that establish, on a system-by-system basis, maximum allowable rates for (i) basic and cable programming services (other than programming offered on a per-channel or per-program basis), based upon a benchmark methodology, or, in the alternative, a cost of service showing, and (ii) associated equipment and installation services based upon cost plus a reasonable profit. Under the FCC

rules, franchising authorities are authorized to regulate rates for basic services and associated equipment and installation services. In 1996, Congress modified the cable rate regulations with the Telecommunications Act of 1996 (the "1996 Act"). This 1996 Act deregulated the rates for cable programming services on March 31, 1999. Adelphia cannot predict the effect or outcome of the future rulemaking proceedings, changes to the rate regulations, or litigation.

On or about March 24, 2000, ML Media Partners, L.P. ("ML Media") commenced an action by filing a Verified Complaint (the "Complaint") in the Supreme Court of the State of New York, New York County, against Arahova Communications, Inc. ("Arahova"), Century Communications Corp., a Texas subsidiary of Arahova ("Century"), and Adelphia. In the nine count Complaint, ML Media alleges that it entered into a joint venture agreement (the "Agreement") with Century which, as subsequently modified, governed the ownership, operation and disposition of cable television systems in Puerto Rico (the "Joint Venture"). The Complaint alleges that Adelphia and its affiliates took over Century's interest in the Joint Venture on or around October 1, 1999, and have, according to the Complaint, breached their fiduciary obligations to the Joint Venture and violated certain provisions of the Agreement. The Complaint further alleges that ML Media gave Century notice that ML Media was exercising its rights under the Agreement to require that Century elect to (A) purchase ML Media's interest in the Joint Venture at an appraised fair value, or (B) seek to sell the cable systems to one or more third parties. Century, according to the Complaint, elected to pursue the sale of the cable systems and indicated that it was evaluating whether it or an affiliate thereof would make an offer for the cable systems. The Complaint alleges that Century or its affiliates' potential participation in the sale process is improper. The Complaint asks for, among other things, the dissolution of the Joint Venture and the appointment of a receiver to effect a prompt sale of the Joint Venture. The parties completed discovery in the action and each filed motions for partial summary judgment. On July 10, 2000, the court granted ML Media's motion for partial summary judgment on the fourth cause of action and declared that neither Century nor any of its affiliates may bid on or attempt to purchase the assets and business of the Joint Venture. The court also dismissed the fourth count of the counterclaim and required Century to proceed diligently with ML Media in locating one or more third parties to complete the sale and prohibited any defendant from interfering with the sale. On July 26, 2000, the court also ordered that the sale may be a sale of either the assets of the Joint Venture or the partnership interests in the Joint Venture. The court did not address other issues concerning the motion for summary judgment and did not schedule a full hearing on the merits. On August 7, 2000, Adelphia and the other defendants filed a notice of appeal with respect to the above described orders and judgment of the Court. On January 23, 2001, the Appellate Division affirmed the decision of the court. On February 26, 2001, the defendants filed with the Appellate Division a Motion for Leave to Appeal to the Court of Appeals and supporting Affirmation. The management of Adelphia and Arahova intend to vigorously defend this action. Management believes that this matter will not have a material adverse effect on the financial statements of the Company.

In November 1999, Arahova, a subsidiary of Adelphia, was sued in a class-action case, Galley vs. American Telephone & Telegraph Corp. et al., where the plaintiffs allege, that by requiring customers to purchase the @Home service, rather than offering the option of access alone, Arahova and the other defendant Multiple System Operators ("MSOs") are illegally "tying" internet content to internet access, thereby violating both the federal antitrust laws and California unfair trade practice statutes. The plaintiffs also allege that the defendants have entered into an illegal conspiracy to require all MSO's providing, or desiring to provide, the @Home service to enter into contracts precluding them from offering any competing internet service. The plaintiffs have recently filed an amended complaint alleging that the violations are national in scope (rather than merely local). Arahova is vigorously defending this case. Due to the preliminary nature of the litigation, the outcome cannot be predicted.

Adelphia and certain subsidiaries are defendants in several putative subscriber class action suits in state courts in Pennsylvania and Mississippi initiated during 1999. The suits all challenge the propriety of late fees

charged by the subsidiaries to customers who fail to pay for services in a timely manner. The suits seek injunctive relief and various formulations of damages under various claimed causes of action under various bodies of state law. These actions are in various stages of defense and are being defended vigorously. The outcome of these matters cannot be predicted at this time. In May 2000, Adelphia settled similar litigation in the state courts of Vermont. The settlement of this matter did not have a material adverse effect on the financial statements of the Company.

During July 1999, Adelphia Business Solutions purchased the naming rights to the NFL Football Tennessee Titans stadium in Nashville, Tennessee. The term of the naming rights contract is for 15 years and requires Adelphia Business Solutions to pay \$2,000 per year.

There are no other material pending legal proceedings, other than routine litigation incidental to the business, to which Adelphia is a part of or which any of its property is subject.

For additional information regarding Adelphia's commitments and contingencies after December 31, 2000, see Note 15.

7. Convertible Preferred Stock, Common Stock and Other Stockholders' Equity (Deficiency)

Series C Convertible Preferred Stock

On July 7, 1997, Adelphia issued 100,000 shares of 8 1/8% Series C Cumulative Convertible Preferred Stock with a par value of \$.01 per share and an aggregate liquidation preference of \$100,000 of which \$80,000 was sold to a Rigas family entity and the remainder was sold to Telesat. The preferred stock accrues dividends at the rate of 8 1/8% of the liquidation preference per annum, and is convertible at \$8.48 per share into an aggregate of 11,792,450 shares of Class A common stock of Adelphia. The preferred stock is redeemable at the option of Adelphia on or after August 1, 2000 at 104% of the liquidation preference declining to 100% of the liquidation preference in 2002. Adelphia paid cash dividends on this preferred stock of \$6,093, \$6,500 and \$3,792 during the nine months ended December 31, 1998 and the years ended December 31, 1999 and 2000, respectively. On January 29, 1999, Adelphia purchased from Telesat its 20,000 shares of Series C cumulative convertible preferred stock.

On August 2, 2000, 80,000 shares of Series C convertible preferred stock held by Highland Holdings, a general partnership owned by the Rigas family, were converted into 9,433,962 shares of Adelphia Class A common stock.

Series D Convertible Preferred Stock

On April 30, 1999, and, in a related transaction on May 14, 1999, Adelphia sold an aggregate 2,875,000 shares of 5 1/2% Series D convertible preferred stock with a liquidation preference of \$200 per share. The preferred stock accrues dividends at \$11 per share annually and is convertible at \$81.45 per share into an aggregate of 7,059,546 shares of Class A common stock of Adelphia. The preferred stock is redeemable at the option of Adelphia on or after May 1, 2002 at 103% of the liquidation preference. Adelphia paid cash dividends on this preferred stock of \$15,738 and \$31,625 during the years ended December 31, 1999 and 2000, respectively.

Adelphia Common Stock Issued

On August 18, 1998, Adelphia issued 8,190,315 shares of Class A common stock to the public and to the Rigas family. Of this total, 4,100,000 shares were sold to the public at a price of \$32.00 per share, with an underwriter discount of \$1.44 per share. The remaining 4,090,315 shares were sold to entities controlled by the Rigas family at the public offering price less the underwriters discount. In a related transaction on September 14, 1998, the Company issued and sold 615,000 shares of Class A common stock at the offering price of \$32.00, with an underwriter discount of \$1.44 per share pursuant to the

underwriters' over-allotment option. Adelphia realized aggregate net proceeds of \$267,926 after deducting underwriter and other fees.

On September 30, 1998, Adelphia issued 2,250,000 shares of Class A common stock in connection with the acquisition of AT&T interests in SHHH, L.P. (Note 1).

On January 14, 1999, Adelphia completed offerings totaling 8,600,000 shares of its Class A common stock. In those offerings, Adelphia sold 4,600,000 newly issued shares of Class A common stock to Goldman, Sachs & Co. at \$43.25 per share and it also sold 4,000,000 shares of its Class A common stock at \$43.25 per share to entities controlled by the Rigas family. Adelphia used the proceeds of approximately \$372,000 from these offerings to repay subsidiary bank debt.

On January 21, 1999, Adelphia issued 2,561,024 shares of Class A common stock in connection with the acquisition of Verto (Note 1).

On April 28, 1999, Adelphia sold 8,000,000 shares of its Class A common stock to the public. Net proceeds of the offering, after deducting offering expenses, were approximately \$485,500. Adelphia used the net proceeds to repay borrowings under subsidiary credit agreements, a portion of which the Company reborrowed to fund the acquisitions which closed on October 1, 1999.

On October 1, 1999, Adelphia issued 47,800,000, 1,850,000 and 7,000,000 shares of Class A common stock in connection with the acquisitions of Century, the remaining 50% of the Citizens/Century Joint Venture and FrontierVision, respectively. (Note 1).

On October 6, 1999, Adelphia sold 6,000,000 shares of its Class A common stock. Net proceeds of the offering, after deducting offering expenses, were approximately \$330,000. Adelphia initially invested the net proceeds in cash equivalents and advanced or contributed a portion of the remaining net proceeds to certain subsidiaries to repay borrowings under subsidiary credit agreements.

On January 21, 2000, Adelphia issued 5,901,522 shares of Class B common stock in connection with a direct placement with Highland 2000, L.P., a limited partnership owned by the Rigas family.

On June 2, 2000, Adelphia issued 167,500 shares of Class A common stock in connection with the acquisition of cable systems in the Colorado Springs, Colorado area from Searle Communications.

On July 3, 2000, Adelphia issued 2,500,000 shares of Class B common stock in connection with a direct placement with Highland 2000, L.P., a limited partnership owned by the Rigas family.

On November 1, 2000, Adelphia issued 10,800,000 shares of Class A common stock in connection with the acquisition of cable systems in the Cleveland, Ohio area from Cablevision Systems Corp. (Note 1).

The Certificate of Incorporation of Adelphia authorizes two classes of common stock, Class A and Class B. Holders of Class A common stock and Class B common stock vote as a single class on all matters submitted to a vote of the stockholders, with each share of Class A common stock entitled to one vote and each share of Class B common stock entitled to ten votes, except (i) for the election of directors and (ii) as otherwise provided by law. In the annual election of directors, the holders of Class A common stock voting as a separate class, are entitled to elect one of Adelphia's directors. In addition, each share of Class B common stock is automatically convertible into a share of Class A common stock upon transfer, subject to certain limited exceptions. In the event a cash dividend is paid, the holders of Class A common stock will be paid 105% of the amount payable per share for each share of Class B common stock.

Upon liquidation, dissolution or winding up of Adelphia, the holders of Class A common stock are entitled to a preference of \$1.00 per share. After such

amount is paid, holders of Class B common stock are entitled to receive \$1.00 per share. Any remaining amount would then be shared ratably by both classes.

Changes in the number of shares outstanding for the Company's common stock are as follows:

| | Class A Common Stock | Class B Common Stock |
|--|-------------------------|-------------------------|
| Shares Outstanding, March 31, 1998 | 20,043,528 | 10,944,476 |
| Issuance of Class A common stock | 8,805,315 | -- |
| Issuance of Class A common stock for affiliate cable television assets | 2,250,000 | -- |
| Conversion of Class B common stock into Class A common stock | 110,000 | (110,000) |
| Other | 50,000 | - |
| Shares Outstanding, December 31, 1998 | 31,258,843 | 10,834,476 |
| Issuances of Class A common stock | 22,600,000 | -- |
| Issuances of Class A common stock in connection with acquisitions | 59,195,275 | -- |
| Other | (3,000) | -- |
| Shares Outstanding, December 31, 1999 | 113,051,118 | 10,834,476 |
| Issuance of Class A common stock to fund stock incentive plans | 137,663 | -- |
| Options exercised for Class A common stock | 298,041 | -- |
| Issuances of Class A common stock in connection with acquisitions | 10,967,500 | -- |
| Retirement of FrontierVision escrow account | (102,950) | -- |
| Conversion of Series C convertible preferred stock | 9,433,962 | -- |
| Issuances of Class B common stock | -- | 8,401,522 |
| Other | 3,000 | -- |
| Shares Outstanding, December 31, 2000 | 133,788,334 | 19,235,998 |

Treasury Stock

On January 29, 1999, Adelphia purchased from Telesat shares of Adelphia's stock, owned by Telesat, for a price of \$149,213. In the transaction, Adelphia purchased 1,091,524 shares of Class A common stock and 20,000 shares of Series C cumulative convertible preferred stock which are convertible into an additional 2,358,490 shares of Class A common stock. These shares represent 3,450,014 shares of common stock on a fully converted basis.

For additional information regarding Adelphia's financing transactions after December 31, 2000, see Note 15.

Adelphia Business Solutions Common Stock Issued

On May 8, 1998, Adelphia Business Solutions completed an IPO of its Class A common stock ("ABIZ Stock"). As part of the offering, Adelphia purchased an incremental 3,324,001 shares of ABIZ Stock for \$49,900 and converted indebtedness owed to the Company by Adelphia Business Solutions into 3,642,666 shares of ABIZ Stock. In addition, Adelphia purchased warrants issued by Adelphia Business Solutions to MCI Metro Access Transmission Services, Inc., and purchased shares of Adelphia Business Solutions Class B common stock from certain executive officers of Adelphia Business Solutions for a total purchase price of approximately \$12,580 and \$3,000, respectively. Additional net proceeds of \$191,411 to Adelphia Business Solutions were received as a result of the sale of 12,500,000 shares of ABIZ Stock to the public. In a related transaction on

June 5, 1998, Adelphia Business Solutions issued and sold 350,000 shares of its Class A common stock at the \$16.00 IPO price pursuant to the underwriters' over allotment option in the IPO. As a result of the IPO, Adelphia's additional paid-in capital increased approximately \$147,000 and minority interests increased approximately \$45,000.

On November 30, 1999, Adelphia Business Solutions issued and sold 8,750,000 shares of Class A common stock at a price to the public of \$30.00 per share. Simultaneously with the closing of this transaction, Adelphia Business Solutions issued and sold 5,181,350 shares of its Class B common stock to Adelphia at a price equal to the public offering price less the underwriting discount for the Class A common stock (collectively "the Secondary Offering").

The Secondary Offering raised net proceeds of approximately \$403,000 to continue the expansion of Adelphia Business Solutions' existing markets and to build new markets. As a result of the Secondary Offering, Adelphia's additional paid-in-capital increased approximately \$109,000 and minority interests increased approximately \$144,000. At December 31, 2000, Adelphia owned 59.4% of the Adelphia Business Solutions' outstanding common stock and 90.6% of the total voting power.

8. Employee Benefit Plans:

Savings Plan

Adelphia has a 401(k) and stock value plan (the "Plan") which provides that eligible full-time employees may contribute from 2% to 16% of their pre-tax compensation subject to certain limitations. The Plan also provides for certain stock incentive awards on an annual basis. Adelphia makes matching contributions not exceeding 1.5% of each participant's pre-tax compensation. Adelphia's contributions amounted to \$605, \$1,732 and \$3,388 for the nine months ended December 31, 1998, and the years ended December 31, 1999 and 2000, respectively.

Adelphia Long-Term Incentive Compensation Plan

On October 6, 1998, Adelphia adopted its 1998 Long-Term Incentive Compensation Plan (the "1998 Plan"). The 1998 Plan provides for the granting of (i) options which qualify as "incentive stock options" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, (ii) options which do not so qualify, (iii) share awards (with or without restrictions on vesting), (iv) stock appreciation rights and (v) stock equivalent or phantom units. The number of shares of Adelphia Class A common stock available for issuance under the 1998 Plan is 3,500,000. Options, awards and units may be granted under the 1998 Plan to directors, officers, employees and consultants of Adelphia. The 1998 Plan provides that incentive stock options must be granted with an exercise price of not less than the fair market value of the underlying Adelphia common stock on the date of the grant. Options outstanding under the Plan may be exercised by paying the exercise price per share through various alternative settlement methods. During 1999, Adelphia granted phantom units to certain management employees which represent compensation bonuses based on Adelphia Class A common stock performance. Such awards vest over three years from the date of grant. During the years ended December 31, 1999 and 2000, Adelphia recorded compensation expense of \$2,621 and \$244 related to these grants, respectively. No phantom units were granted during the year ended December 31, 2000. During 2000, Adelphia granted 441,331 options. Certain of the options vest immediately and others vest over periods up to 10 years and were granted with a strike price equal to fair value as of the date of grant. No compensation expense was recorded related to these options.

The following table summarizes Adelphia stock option activity:

Weighted

| average exercise price per share | | Number of shares subject to options |
|--|--------------------------------|---|
| ----- | | ----- |
| -- | Outstanding, December 31, 1998 | -- \$ |
| 11.68 | Granted | 337,922 |
| 10.73 | Exercised | 15,825 |
| | | ----- |
| 11.73 | Outstanding, December 31, 1999 | 322,098 |
| 48.72 | Granted | 441,311 |
| 11.90 | Exercised | 298,041 |
| | | ----- |
| 46.73 | Outstanding, December 31, 2000 | 465,368 \$ |
| | | ===== |

The following table summarizes information about the Adelphia stock options outstanding and exercisable at December 31, 2000:

| Options Outstanding | | | | |
|--------------------------|--------------------------|--------------------------|--------------------------|-----------|
| Options exercisable | | | | |
| ----- | | | | |
| Weighted average | | Weighted average | | |
| remaining | Weighted average | remaining | Weighted average | |
| Number of | contractual life | contractual life | exercise price | |
| Exercise price per share | Exercise price per share | Exercise price per share | Exercise price per share | |
| shares | (years) | of shares | (years) | per share |
| per share | | per share | | |
| ----- | ----- | ----- | ----- | ----- |
| 308,868 | \$5.15 - \$60.00 | 465,368 | 9.3 | 46.73 |
| | 8.55 | \$52.75 | | |

Adelphia Business Solutions Long-Term Incentive Compensation Plan

On October 3, 1996, the Board of Directors and stockholders of Adelphia

Business Solutions approved its 1996 Long-Term Incentive Compensation Plan (the "1996 Plan"). The 1996 Plan provides for the grant of (i) options which qualify as "incentive stock options" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, (ii) options which do not so qualify, (iii) share awards (with or without restrictions on vesting), (iv) stock appreciation rights and (v) stock equivalent or phantom units. The number of shares of Adelphia Business Solutions' Class A common stock available for issuance initially was 5,687,500. Such number is to increase each year by 1% of outstanding shares of all classes of Adelphia Business Solutions' common stock, up to a maximum of 8,125,000 shares. Options, awards and units may be granted under the 1996 Plan to directors, officers, employees and consultants. The 1996 Plan provides the incentive stock options must be granted with an exercise price of not less than the fair market value of the underlying common stock on the date of grant. Options outstanding under the Plan may be exercised by paying the exercise price per share through various alternative settlement methods.

In August 1999, Adelphia Business Solutions issued under the 1996 Plan to each of John J. Rigas, Michael J. Rigas, Timothy J. Rigas and James P. Rigas (i) stock options (the "Rigas Options") covering 100,000 shares of Adelphia Business Solutions' Class A common stock, which options will vest in equal one-third amounts on the third, fourth and fifth year anniversaries of grant (vesting conditioned on continued service as an employee or director) and which shall be exercisable at \$16.00 per share and (ii) stock awards (the "Rigas Grants") covering 100,000 shares of Adelphia Business Solutions' Class A common stock, which stock awards will vest in equal one-third amounts on the third, fourth and fifth year anniversaries of grant (vesting conditioned on continued service as an employee or director). Compensation expense associated with these grants is recognized ratably over the vesting periods.

In addition to the Rigas Options, certain employees have been granted options to purchase shares of ABIZ Class A common stock at prices equal to the fair market value of the shares on the date the option was granted. Options are exercisable immediately after grant and have a maximum term of ten years.

The following table summarizes stock option activity under Adelphia Business Solutions:

| Weighted average exercise price per share | | Number of shares subject to options |
|--|--------------------------------|---|
| ----- | | ----- |
| -- | Outstanding, December 31, 1998 | -- \$ |
| 15.13 | Granted | 600,417 |
| 15.13 | Outstanding, December 31, 1999 | 600,417 |
| 32.71 | Granted | 216,050 |
| 19.78 | Outstanding, December 31, 2000 | 816,467 \$ |
| | | ===== |

| Options exercisable | | | Options outstanding | | |
|---------------------|------------------|--|---------------------|--------------------|-----------|
| ----- | | | ----- | | |
| Weighted average | | | Weighted average | | |
| remaining | Weighted average | | remaining | Weighted average | |
| Exercise price per | Number of | | contractual life | exercise price per | Number of |
| contractual life | exercise price | | | | |
| share | shares | | (years) | share | shares |
| (years) | per share | | | | |
| ----- | | | ----- | | |
| ----- | | | ----- | | |
| \$ 8.69 - \$61.63 | 816,467 | | 5.4 | \$19.78 | 361,667 |
| 6.9 | \$23.59 | | | | |

SFAS 123 pro forma numbers are as follows:

| | Year Ended December 31, | |
|--|----------------------------|--------------|
| | 1999 | 2000 |
| Net loss-as reported | \$ (282,682) | \$ (602,484) |
| Net loss-Pro forma applying SFAS 123 | (285,016) | (609,272) |
| Basic and diluted net loss per common share-as reported under ABP 25 | (3.88) | (4.45) |
| Basic and diluted net loss per common share-pro forma under SFAS 123 | (3.91) | (4.50) |

| Employee Stock Options | |
|------------------------|------|
| Year Ended | |
| December 31, | |
| 1999 | 2000 |

Expected dividend yield
Risk-free interest rate
Expected volatility
Expected life (in years)

| | |
|-------|----------|
| 0% | 0% |
| 6.93% | 6.00% |
| 50% | 50%-116% |
| 5.2 | 6.82 |

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because Adelphia's and Adelphia Business Solutions' employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion the existing models do not necessarily provide a reliable single measure of the fair value of Adelphia's and Adelphia Business Solutions' options.

In addition to the stock options and Rigas Grants, Adelphia Business Solutions issued 58,500 and 98,500 shares of Adelphia Business Solutions' Class A common stock to certain employees for the nine months ended December 31, 1998 and the year ended December 31, 2000, respectively, resulting in the recognition of \$761 and \$387 of compensation expense, respectively.

9. Taxes on Income

Adelphia and its corporate subsidiaries file federal income tax returns, which include their share of the subsidiary partnerships and joint venture partnership results of operations. Depreciation and amortization expense differs for tax and financial statement purposes due to the use of prescribed periods rather than useful lives for tax purposes and also as a result of differences between tax basis and book basis of certain acquisitions.

The tax effects of significant items comprising Adelphia's net deferred tax liability are as follows:

| | December 31, | |
|---|--------------|--------------|
| | 1999 | 2000 |
| Deferred tax liabilities: | | |
| Differences between book and tax basis of property, plant and equipment and intangible assets | \$ 2,738,782 | \$ 2,993,957 |
| Deferred tax assets: | | |
| Tax credits and other assets | 23,911 | 124,120 |
| Operating loss carryforwards | 855,377 | 1,205,420 |
| | 879,288 | 1,329,540 |
| Valuation allowance | (253,603) | (409,621) |
| | 625,685 | 919,919 |
| Subtotal | | |
| | 625,685 | 919,919 |
| Net deferred tax liability | \$ 2,113,097 | \$ 2,074,038 |

The net change in the valuation allowance from operations for the years ended December 31, 1999 and 2000 was an increase of \$72,192 and \$156,018, respectively. There was also a decrease in the valuation allowance of \$256,768 due to acquisitions during the year ended December 31, 1999.

Income tax benefit (expense) is as follows:

| | Nine Months Ended December 31, 1998 | Year Ended December 31, 1999 | 2000 |
|----------|--|------------------------------------|-------------|
| Current | \$ 60 | \$ (1,950) | \$ (18,948) |
| Deferred | 6,742 | 16,443 | 176,582 |
| Total | \$ 6,802 | \$ 14,493 | \$ 157,634 |

A reconciliation of the statutory federal income tax rate and Adelphia's effective income tax rate is as follows:

| Year Ended December 31, ----- 2000 ----- | Nine Months Ended December 31, ----- 1998 ----- | 1999 ----- |
|--|--|---------------|
| 35% | 35% | 35% |
| (23) | (15) | (26) |
| (5) | (2) | (6) |
| -- | 2 | 1 |
| (2) | (3) | -- |
| 1 | 5 | 3 |
| ----- | ----- | ----- |
| 6% | 22% | 7% |
| ===== | ===== | ===== |

At December 31, 2000, Adelphia and its corporate subsidiaries had net operating loss carryforwards for federal income tax purposes of approximately \$3,024,642 expiring through 2020 as follows:

Year of expiration:

| | | | | | | | |
|------|-----------|------|------------|------|------------|------|---------|
| 2001 | \$ 12,956 | 2006 | \$ 209,933 | 2011 | \$ 124,382 | 2016 | \$ -- |
| 2002 | 71,524 | 2007 | 190,686 | 2012 | 107,539 | 2017 | 2,207 |
| 2003 | 153,884 | 2008 | 218,195 | 2013 | -- | 2018 | 168,566 |
| 2004 | 225,658 | 2009 | 181,156 | 2014 | -- | 2019 | 299,356 |
| 2005 | 234,444 | 2010 | 147,174 | 2015 | -- | 2020 | 676,982 |

10. Restructuring Charges

During December, 2000, Adelphia Business Solutions initiated a plan to reduce its network expansion plan from its former target of 175 to 200 markets nationwide by the end of 2001 to a new target of approximately 80 markets, thereby canceling plans to enter or continue operations in approximately 125 markets. In January 2001, Adelphia Business Solutions reduced its national staff by approximately 8% as a result of Adelphia Business Solutions' revised business plan. Most of the affected employees were located in markets in which Adelphia Business Solutions has stopped expansion. For the year ended December 31, 2000, Adelphia Business Solutions recorded a charge of approximately \$5,420 to cover a portion of the costs associated with this revised business plan. Approximately \$4,568 of the charge relates to cash expenses relating to the termination of lease contracts in the eliminated markets.

Approximately \$852 of the charge relates to severance for certain executive employees. No amounts were recorded for severance for terminated non-executive employees as of December 31, 2000. In addition, no amounts were recorded for the disposal of assets as most equipment deployed in the terminated markets can be redeployed in Adelphia Business Solutions' surviving markets, at little or no incremental costs.

11. Disclosures about Fair Value of Financial Instruments

Included in Adelphia's financial instrument portfolio are cash and cash equivalents, U.S. government securities, restricted cash, investments in marketable securities, fixed and variable rate notes payable to banks and institutions, debentures, redeemable preferred stock and interest rate swaps, caps and collars. The carrying values of cash and cash equivalents, U.S. government securities, restricted cash, variable rate notes payable to banks and institutions and investments in marketable securities approximate their fair values at December 31, 1999 and 2000. The carrying value of the fixed rate notes payable to banks and institutions, publicly traded notes, debentures and redeemable preferred stock at December 31, 1999 and 2000 were \$6,604,376 and \$7,237,381, respectively. At December 31, 1999, the fair value exceeded the carrying value by \$21,035. At December 31, 2000, the carrying value exceeded the fair value by \$949,879. At December 31, 1999 and 2000, Adelphia would have received approximately \$6,603 and \$262, respectively, to settle its interest rate swaps, caps and collars agreements, representing the excess of fair value

over carrying values of these agreements. The fair values of the debt, redeemable preferred stock and interest rate swaps, caps and collars were based upon quoted market prices of similar instruments or on rates available to Adelphia for instruments of similar terms and remaining maturities.

12. Business Segment Information

Refer to Item 6, Selected Financial Data - Business Segment Information, of this Annual Report on Form 10-K for information regarding business segments as of and for the nine months ended December 31, 1998 and as of and for the years ended December 31, 1999 and 2000.

13. Related Party Transactions

Adelphia currently manages cable television systems which are principally owned by limited partnerships in which certain of Adelphia's principal shareholders who are executive officers have equity interests.

Adelphia has agreements with Olympus and the Managed Entities which provide for the payment of fees to Adelphia. The aggregate fee revenues from Olympus and the Managed Entities amounted to \$2,022, \$5,033 and \$34,905 for the nine months ended December 31, 1998 and the years ended December 31, 1999 and 2000, respectively. In addition, Adelphia was reimbursed by Olympus and the Managed Entities for allocated corporate costs of \$7,548, \$7,785 and \$6,144 for the nine months ended December 31, 1998 and the years ended December 31, 1999 and 2000, respectively, which have been recorded as a reduction of selling, general and administrative expenses.

Interest expense - net includes interest income from affiliates for borrowings of \$14,560, \$56,719 and \$40,333 for the nine months ended December 31, 1998 and the years ended December 31, 1999 and 2000, respectively.

At March 31, 1998, Adelphia had interest rate swaps with affiliates for a notional amount of \$175,000, which expired during the nine months ended December 31, 1998. The net effect of these interest rate swaps was to increase interest expense by \$2,049 for the nine months ended December 31, 1998.

During the nine months ended December 31, 1998 and the years ended December 31, 1999 and 2000, Adelphia paid \$3,422, \$11,227 and \$15,864, respectively, to entities owned by certain shareholders of Adelphia primarily for property, plant and equipment.

14. Quarterly Financial Data (Unaudited)

The following tables summarize the financial results of Adelphia for each of the quarters in the years ended December 31, 1999 and 2000. In the opinion of management, such financial results reflect all adjustments (consisting only of normal and recurring adjustments) necessary to fairly present the data for such interim period.

| Year Ended December 31, 1999 | Three Months Ended | | | |
|--|--------------------|------------|--------------|-------------|
| | March 31 | June 30 | September 30 | December 31 |
| Revenues | \$ 201,604 | \$ 218,786 | \$ 232,305 | \$ 635,273 |
| Operating expenses: | | | | |
| Direct operating and programming | 67,295 | 72,635 | 79,623 | 213,059 |
| Selling, general and administrative | 49,111 | 61,616 | 75,303 | 154,549 |
| Depreciation and amortization | 56,863 | 63,783 | 65,686 | 184,693 |
| Merger and integration costs | -- | -- | -- | 4,736 |
| Total | 173,269 | 198,034 | 220,612 | 557,037 |
| Operating income | 28,335 | 20,752 | 11,693 | 78,236 |
| Other income (expense): | | | | |
| Priority investment income from Olympus | 12,000 | 12,000 | 12,000 | -- |
| Interest expense - net | (67,464) | (52,215) | (51,961) | (187,945) |
| Equity in loss of Olympus and other joint ventures | (14,861) | (23,074) | (22,305) | (378) |
| Equity in loss of Adelphia Business Solutions joint ventures | (3,803) | (3,291) | (246) | (418) |
| Minority interest in losses of subsidiaries | 12,914 | 13,146 | 12,755 | (116) |
| Adelphia Business Solutions preferred stock dividends | (7,619) | (7,860) | (8,108) | (8,586) |

| | | | | |
|---|----------|----------|----------|-----------|
| Other | 2,354 | -- | -- | (489) |
| Total | (66,479) | (61,294) | (57,865) | (197,932) |
| Loss before income taxes and extraordinary loss | (38,144) | (40,542) | (46,172) | (119,696) |
| Income tax benefit | 2,897 | 1,149 | 3,580 | 6,867 |
| Loss before extraordinary loss | (35,247) | (39,393) | (42,592) | (112,829) |
| Extraordinary loss on early retirement of debt, net of income taxes | (8,589) | (1,438) | -- | (631) |
| Net loss | (43,836) | (40,831) | (42,592) | (113,460) |
| Dividend requirements applicable to preferred stock | (6,500) | (6,500) | (14,332) | (14,631) |

Net loss applicable to common stockholders \$ (50,336) \$ (47,331) \$ (56,924) \$ (128,091)

Basic and diluted loss per weighted average share of common stock before extraordinary loss \$ (0.80) \$ (0.79) \$ (0.95) \$ (1.05)

Basic and diluted extraordinary loss per weighted average share on early retirement of debt (0.17) (0.02) -- --

Basic and diluted net loss per weighted average share of common stock \$ (0.97) \$ (0.81) \$ (0.95) \$ (1.05)

Weighted average shares of common stock outstanding (in thousands) 52,019 58,141 60,163 121,769

| Year Ended December 31, 2000 | March 31 | Three Months Ended June 30 | September 30 | December 31 |
|---|------------|-------------------------------|--------------|-------------|
| Revenues | \$ 672,719 | \$ 704,125 | \$ 727,858 | \$ 804,649 |
| Operating expenses: | | | | |
| Direct operating and programming | 240,996 | 260,371 | 269,605 | 299,374 |
| Selling, general and administrative | 170,606 | 171,698 | 177,907 | 229,401 |
| Restructuring charges | -- | -- | -- | 5,420 |
| Depreciation and amortization | 200,526 | 210,374 | 214,053 | 242,924 |
| Total | 612,128 | 642,443 | 661,565 | 777,119 |
| Operating income | 60,591 | 61,682 | 66,293 | 27,530 |
| Other income (expense): | | | | |
| Interest expense - net | (198,392) | (206,978) | (228,720) | (288,775) |
| Equity in loss of joint ventures | (3,309) | (3,805) | (4,096) | (14,213) |
| Equity in loss of Adelphia Business Solutions joint ventures | (105) | (346) | 381 | (2,788) |
| Minority interest in losses of subsidiaries | 18,911 | 34,045 | 26,065 | 59,510 |
| Adelphia Business Solutions preferred stock dividends | (8,635) | (8,909) | (9,192) | (9,483) |
| Other-than-temporary impairment of marketable equity securities | -- | -- | -- | (109,605) |
| Gain on cable systems swap | -- | 37,552 | -- | -- |
| Other | (92) | (96) | (96) | (127) |
| Total | (191,622) | (148,537) | (215,658) | (365,481) |
| Loss before income taxes | (131,031) | (86,855) | (149,365) | (337,951) |
| Income tax benefit | 29,489 | 15,899 | 18,415 | 93,831 |

| | | | | |
|---|--------------|-------------|--------------|--------------|
| Net loss | (101,542) | (70,956) | (130,950) | (244,120) |
| Dividend requirements applicable to preferred stock | (14,406) | (14,406) | (14,406) | (11,698) |
| Net loss applicable to common stockholders | \$ (115,948) | \$ (85,362) | \$ (145,356) | \$ (255,818) |
| Basic and diluted net loss per weighted average share of common stock | \$ (0.91) | \$ (0.66) | \$ (1.06) | \$ (1.73) |
| Weighted average shares of common stock outstanding (in thousands) | 127,333 | 128,747 | 137,510 | 148,167 |

15. Subsequent Events

On January 1, 2001, the Company closed the previously announced cable systems exchange with Comcast Corporation. As a result of this transaction, Adelphia added approximately 443,000 basic subscribers in Los Angeles, California and West Palm/Fort Pierce, Florida. In exchange, Comcast received systems serving approximately 469,000 basic subscribers in suburban Philadelphia, Pennsylvania, Ocean County, New Jersey, Ft. Myers, Florida, Michigan, New Mexico and Indiana. The cable systems exchange has been recorded at fair value and purchase accounting has been applied as of the date of the transaction.

On January 3, 2001, certain subsidiaries of Adelphia closed on a new short term secured revolving credit facility. The facility is scheduled to expire November 30, 2001 and provides for initial lending commitments of \$1,300,000, subject to reductions over time and upon the occurrence of certain events, including certain debt financings and asset sales. Subject to compliance with the terms of this new credit facility, proceeds are available for general corporate purposes. Approximately \$360,000 of the facility was used to permanently repay a subsidiary credit facility.

On January 17, 2001, the Company entered into a stock purchase agreement ("January 2001 Rigas Common Stock Direct Placement") with Highland 2000, L.P., an entity controlled by members of the family of John Rigas, under which Highland agreed to purchase 5,819,367 shares of Adelphia Class B common stock. The January 2001 Rigas Common Stock Direct Placement will be at a per share price equal to \$42.96, plus an interest factor. Closing on the January 2001 Rigas Common Stock Direct Placement will occur by October 22, 2001 and is subject to customary closing conditions.

On January 17, 2001, the Company entered into a note purchase agreement ("January 2001 Rigas Notes Direct Placement") with Highland 2000, L.P., an entity controlled by members of the family of John Rigas under which Highland agreed to purchase \$167,400 aggregate principal amount of 6% convertible subordinated notes due 2006. Proceeds from the January 2001 Rigas Notes Direct Placement will be approximately \$162,800, plus an interest factor. The economic terms of these notes will be substantially similar to the terms of the notes that were sold in the January 23, 2001 convertible notes offering described below, except that these convertible notes are convertible into shares of Adelphia Class B common stock. Closing on the January 2001 Rigas Notes Direct Placement will occur by October 22, 2001, and is subject to customary closing conditions.

On January 23, 2001, and in a related transaction on February 22, 2001, Adelphia sold 18,350,000 shares of its Class A common stock. Net proceeds of the offering, after deducting offering expenses were approximately \$788,000. Adelphia used the proceeds from the offering to repay subsidiary bank debt, which may be borrowed and used for general corporate purposes.

On January 23, 2001, and in a related transaction on February 2, 2001, Adelphia completed an offering of \$862,500 of 6% convertible subordinated notes due 2006. Net proceeds from this offering, after deducting offering expenses

were approximately \$838,000. Adelphia used the proceeds from the offering to repay subsidiary bank debt, which may be borrowed and used for general corporate purposes.

During March 2001, the Company completed its previously announced acquisition of cable television systems, including GS Communications, Inc. These systems served approximately 155,000 subscribers at the date of acquisition, primarily in the Virginia cluster. In connection with the acquisition, Adelphia issued 2,394,778 shares of its Class A common stock and paid cash of approximately \$705,000.

During March 2001, Adelphia Business Solutions issued and sold 25,322 shares of Class A common stock to the public in a rights offering at a price of \$7.28 per share. Simultaneously, Adelphia Business Solutions issued and sold 11,820,070 and 51,459,624 shares of Class A and Class B common stock, respectively, to Adelphia in the rights offering at a price of \$7.28 per share. Total proceeds to Adelphia Business Solutions were approximately \$460,900.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information set forth above in Part I under the caption "Executive Officers of the Registrant" is incorporated herein by reference. The other information required by this item is incorporated herein by reference to the information set forth under the caption "Election of Directors - Description of Board of Directors"; the information set forth under the caption "Election of Directors - Nominee for Election by Holders of Class A Common Stock"; the information set forth under the caption "Election of Directors - Nominees for Election by Holders of Class A Common Stock and Class B Common Stock"; and the information, if any, under the caption "Section 16(a) Beneficial Ownership Reporting Compliance," in the Company's definitive proxy statement for the 2001 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, or by reference to a filing amending this Annual Report on Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated herein by reference to the information set forth under the caption "Executive Compensation" in the Company's definitive proxy statement for the 2001 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, or by reference to a filing amending this Annual Report on Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item is incorporated herein by reference to the information set forth under the caption "Principal Stockholders" in the Company's definitive proxy statement for the 2001 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, or by reference to a filing amending this Annual Report on Form 10-K.

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

X Annual Report under Section 13 or 15(d) of the Securities Exchange Act of
--- 1934

For the Year Ended December 31, 2000

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange
--- Act of 1934 for the transition period.

Commission File Number: 000-21605

ADELPHIA BUSINESS SOLUTIONS, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

25-1669404
(I.R.S. Employer
Identification No.)

One North Main Street
Coudersport, PA
(Address of principal executive offices)

16915-1141
(Zip code)

814-274-9830
(Registrant's telephone number including area code)

Securities registered pursuant to Section 12(b) of the Act: None.

Securities registered pursuant to Section 12(g) of the Act:

Class A Common Stock, \$0.01 par value.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

--- ---

Aggregate market value of outstanding Class A Common Stock par value \$0.01 and Class B Common Stock, par value \$0.01, held by non-affiliates of the registrant at March 28, 2001 was approximately \$125 million based on the closing sale price of the Class A Common Stock as computed by the NASDAQ National Market system as of that date. For purposes of this calculation only, affiliates are deemed to be Adelphia Communications Corporation and the directors and executive officers of the Registrant.

At March 28, 2001, 47,742,758 shares of Class A Common Stock, par value \$0.01, and 86,603,483 shares of Class B Common Stock, par value \$0.01, of the registrant were outstanding.

Documents Incorporated by Reference: Portions of the Proxy Statement for the 2001 Annual Meeting of Stockholders are or may be incorporated by reference into

rules for revenue recognition. SAB No. 101 was adopted by the Company in the fourth quarter of 2000. The Company's revenue recognition policy did not change with the adoption of SAB No. 101.

Impact of Inflation

The Company does not believe that inflation has had a significant impact on the Company's consolidated operations or on the operations of the joint ventures in the nine months ended December 31, 1998 and the years ended December 31, 1999 and 2000.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company uses fixed rate debt to fund its working capital requirements, capital expenditures and acquisitions. These debt arrangements expose the Company to market risk related to changes in interest rates. The table below summarizes the fair values and contract terms of the Company's financial instruments subject to interest rate risk as of December 31, 2000.

| | Expected Maturity | | | | | | Total | Fair Value |
|---|-------------------|--------|------------|------------|-----------|------------|--------------|------------|
| | 2001 | 2002 | 2003 | 2004 | 2005 | Thereafter | | |
| Fixed Rate Debt and Redeemable Preferred Stock: | \$ --- | \$ --- | \$ 303,840 | \$ 250,000 | \$ --- | \$ 597,067 | \$ 1,150,907 | \$ 655,385 |
| Average Interest Rate | 12.54% | 12.54% | 12.44% | 12.39% | 12.44% | 12.40% | --- | --- |
| Fixed Rate Non-Public Debt: | \$ --- | \$ --- | \$ 18,068 | \$ 38,409 | \$ 48,636 | \$ 394,887 | \$ 500,000 | \$ 500,000 |
| Average Interest Rate | 12.50% | 12.50% | 12.50% | 12.50% | 12.50% | 12.50% | --- | --- |

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements and related notes thereto and independent auditors' report follow.

ADELPHIA BUSINESS SOLUTIONS, INC. AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

Adelphia Business Solutions, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Adelphia Business Solutions, Inc. and Subsidiaries as of December 31, 1999 and 2000, and the related consolidated statements of operations, of common stock and other stockholders' equity (deficiency) and of cash flows for the nine months ended December 31, 1998 and the years ended December 31, 1999 and 2000. Our audits also included the financial statement schedule listed in the Index at Item 14. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Adelphia Business Solutions, Inc. and subsidiaries as of December 31, 1999 and 2000, and the results of their operations and their cash flows for the nine months ended December 31, 1998 and the years ended December 31, 1999 and 2000 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/DELOITTE & TOUCHE LLP

Pittsburgh, Pennsylvania
March 22, 2001

ADELPHIA BUSINESS SOLUTIONS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share amounts)

| | December 31, 1999 | 2000 |
|---------------------------------|----------------------|----------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 2,133 | \$ 3,543 |
| Due from parent - net | 392,629 | -- |

| | | |
|--|--------------|--------------|
| Due from affiliate - net | 6,230 | -- |
| Accounts receivable - net | 68,075 | 79,650 |
| Other current assets | 9,852 | 14,936 |
| | ----- | ----- |
| Total current assets | 478,919 | 98,129 |
| U.S. government securities - pledged | 29,899 | -- |
| Restricted cash | -- | 54,178 |
| Investments | 44,066 | 48,409 |
| Property, plant and equipment - net | 943,756 | 1,534,612 |
| Other assets - net | 67,063 | 154,138 |
| | ----- | ----- |
| Total | \$ 1,563,703 | \$ 1,889,466 |
| | ===== | ===== |

LIABILITIES, PREFERRED STOCK, COMMON STOCK AND
OTHER STOCKHOLDERS' EQUITY (DEFICIENCY)

Current liabilities:

| | | |
|--|------------|------------|
| Accounts payable | \$ 150,151 | \$ 158,249 |
| Due to parent - net | -- | 1,544 |
| Due to affiliates - net | -- | 8,067 |
| Accrued interest | 16,566 | 31,011 |
| Accrued interest - parent | -- | 7,003 |
| Other current liabilities | 11,029 | 13,339 |
| | ----- | ----- |
| Total current liabilities | 177,746 | 219,213 |
| 13% Senior Discount Notes due 2003 | 253,860 | 291,891 |
| 12 1/4% Senior Secured Notes due 2004 | 250,000 | 250,000 |
| 12% Senior Subordinated Notes due 2007 | 300,000 | 300,000 |
| Note payable | -- | 500,000 |
| Other debt | 41,318 | 48,565 |
| | ----- | ----- |
| Total liabilities | 1,022,924 | 1,609,669 |

| | | |
|---|---------|---------|
| 12 7/8% Senior Exchangeable Redeemable Preferred Stock | 260,848 | 297,067 |
|---|---------|---------|

Commitments and contingencies (Note 7)

Common stock and other stockholders' equity
(deficiency)

| | | |
|---|--------------|--------------|
| Class A common stock, \$0.01 par value, 800,000,000 shares authorized, 34,066,587 and 35,848,366 shares outstanding, respectively | 341 | 358 |
| Class B common stock, \$0.01 par value, 400,000,000 shares authorized, 35,371,459 and 35,143,859 shares outstanding, respectively | 354 | 351 |
| Additional paid in capital | 666,021 | 678,140 |
| Class B common stock warrants | 2,177 | 1,022 |
| Unearned stock compensation | (5,715) | (4,070) |
| Accumulated deficit | (383,247) | (693,071) |
| | ----- | ----- |
| Total common stock and other stockholders' equity (deficiency) | 279,931 | (17,270) |
| | ----- | ----- |
| Total | \$ 1,563,703 | \$ 1,889,466 |
| | ===== | ===== |

See notes to consolidated financial statements

ADELPHIA BUSINESS SOLUTIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, except per share amounts)

| | Nine Months Ended December 31, | Year Ended December 31, | |
|---|--|----------------------------|--------------|
| | 1998 | 1999 | 2000 |
| Revenues | \$ 34,776 | \$ 154,575 | \$ 351,974 |
| Operating expenses: | | | |
| Network operations | 18,709 | 58,525 | 183,314 |
| Selling, general and administrative | 35,341 | 142,615 | 277,198 |
| Restructuring charges | -- | -- | 5,420 |
| Depreciation and amortization | 26,671 | 65,244 | 114,614 |
| Total | 80,721 | 266,384 | 580,546 |
| Operating loss | (45,945) | (111,809) | (228,572) |
| Other income (expense): | | | |
| Interest income | 10,233 | 19,933 | 3,900 |
| Interest income - affiliate | 8,395 | 8,483 | 6,282 |
| Interest expense | (38,638) | (74,314) | (81,573) |
| Interest expense - affiliate | -- | -- | (7,003) |
| Other income | 1,113 | -- | -- |
| Loss before income taxes, equity in net loss of joint ventures and extraordinary gain | (64,842) | (157,707) | (306,966) |
| Income tax expense | -- | (1) | -- |
| Loss before equity in net loss of joint ventures and extraordinary gain | (64,842) | (157,708) | (306,966) |
| Equity in net loss of joint ventures | (9,580) | (7,758) | (2,858) |
| Loss before extraordinary gain | (74,422) | (165,466) | (309,824) |
| Extraordinary gain on repurchase of debt . | 237 | -- | -- |
| Net loss | (74,185) | (165,466) | (309,824) |
| Dividend requirements applicable to preferred stock | (21,117) | (31,618) | (35,665) |
| Net loss applicable to common stockholders | \$ (95,302) | \$ (197,084) | \$ (345,489) |
| Basic and diluted net loss per weighted average share of common stock before extraordinary gain | \$ (1.81) | \$ (3.47) | \$ (4.93) |
| Basic and diluted extraordinary gain on repurchase of debt per weighted average share of common stock | 0.01 | -- | -- |
| Basic and diluted net loss per weighted average share of common stock | \$ (1.80) | \$ (3.47) | \$ (4.93) |

| | | | |
|---|--------|--------|--------|
| Weighted average shares of common stock outstanding (in thousands) | 53,035 | 56,739 | 70,088 |
| | ===== | ===== | ===== |

See notes to consolidated financial statements

ADELPHIA BUSINESS SOLUTIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMMON STOCK
AND OTHER STOCKHOLDERS' EQUITY (DEFICIENCY)
(Dollars in thousands, except per share amounts)

| | Class A Common Stock | Class B Common Stock | Additional Paid-in Capital | Class A Common Stock Warrant | Class B Common Stock Warrant | Loans to Shareholders | Unearned Stock Compensation | Accumulated Deficit | Total |
|---|----------------------------|----------------------------|----------------------------------|---------------------------------------|---------------------------------------|--------------------------|-----------------------------------|------------------------|--------------|
| Balance, March 31, 1998 | \$ 4 | \$ 325 | \$ 179 | \$ 13,000 | \$ 11,087 | \$ (3,000) | \$ --- | \$ (140,586) | \$ (118,991) |
| Proceeds from issuance of Class A common stock | 129 | --- | 190,731 | --- | --- | --- | --- | --- | 190,860 |
| Proceeds from issuance of Class A common stock to Adelphia | 33 | --- | 49,827 | --- | --- | --- | --- | --- | 49,860 |
| Exercise of Class A common stock warrant | 7 | --- | 12,993 | (13,000) | --- | --- | --- | --- | --- |
| Conversion of note and payables to Adelphia to Class A common stock | 36 | --- | 44,222 | --- | --- | --- | --- | --- | 44,258 |
| Exercise of Class B common stock warrants | --- | 8 | 6,596 | --- | (6,604) | --- | --- | --- | --- |
| Conversion of Class B common stock to Class A common stock | 10 | (10) | --- | --- | --- | --- | --- | --- | --- |
| Repayment of loan to shareholders | --- | --- | --- | --- | --- | 3,000 | --- | --- | 3,000 |
| Dividend requirements applicable to preferred stock | --- | --- | (18,168) | --- | --- | --- | --- | (2,949) | (21,117) |
| Other | --- | --- | (353) | --- | --- | --- | --- | (61) | (414) |
| Issuance of Class A common stock bonus | 5 | --- | 755 | --- | --- | --- | --- | --- | 760 |
| Net loss | --- | --- | --- | --- | --- | --- | --- | (74,185) | (74,185) |
| Balance, December 31, 1998 | 224 | 323 | 286,782 | --- | 4,483 | --- | --- | (217,781) | 74,031 |
| Proceeds from issuance of Class A common stock | 88 | --- | 252,766 | --- | --- | --- | --- | --- | 252,854 |
| Proceeds from issuance of Class B common stock | --- | 52 | 149,948 | --- | --- | --- | --- | --- | 150,000 |
| Exercise of Class B common stock warrants | --- | 3 | 2,303 | --- | (2,306) | --- | --- | --- | --- |
| Conversion of Class B common stock to Class A common stock | 24 | (24) | --- | --- | --- | --- | --- | --- | --- |
| Unearned stock compensation | 4 | --- | 6,396 | --- | --- | --- | (5,715) | --- | 685 |
| Dividend requirements applicable to preferred stock | --- | --- | (31,618) | --- | --- | --- | --- | --- | (31,618) |
| Other | 1 | --- | (556) | --- | --- | --- | --- | --- | (555) |
| Net loss | --- | --- | --- | --- | --- | --- | --- | (165,466) | (165,466) |
| Balance, December 31, 1999 | \$ 341 | \$ 354 | \$ 666,021 | \$ --- | \$ 2,177 | \$ --- | \$ (5,715) | \$ (383,247) | \$ 279,931 |

See notes to consolidated financial statements

ADELPHIA BUSINESS SOLUTIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMMON STOCK
AND OTHER STOCKHOLDERS' EQUITY (DEFICIENCY) (continued)
(Dollars in thousands, except per share amounts)

| | Class A Common Stock | Class B Common Stock | Additional Paid-in Capital | Class A Common Stock Warrant | Class B Common Stock Warrant | Loans to Shareholders | Unearned Stock Compensation | Accumulated Deficit | Total |
|---|----------------------------|----------------------------|----------------------------------|---------------------------------------|---------------------------------------|--------------------------|-----------------------------------|------------------------|-------------|
| Balance, December 31, 1999 | \$ 341 | \$ 354 | \$ 666,021 | \$ --- | \$ 2,177 | \$ --- | \$ (5,715) | \$ (383,247) | \$ 279,931 |
| Exercise of Class A common stock warrant | 9 | --- | 5,612 | --- | --- | --- | --- | --- | 5,621 |
| Exercise of Class B common stock warrant | --- | 1 | 1,154 | --- | 1,155 | --- | --- | --- | --- |
| Conversion of Class B common stock to Class A common stock | 4 | (4) | --- | --- | --- | --- | --- | --- | --- |
| Vesting of stock compensation | --- | --- | --- | --- | --- | --- | 1,645 | --- | 1,645 |
| Issuance of Class A common stock bonus | 1 | --- | 401 | --- | --- | --- | --- | --- | 402 |
| Excess of sales price over carrying value of networks sold | --- | --- | 34,255 | --- | --- | --- | --- | --- | 34,255 |
| Issuance of Class A common stock for purchase of telecommunications network | 3 | --- | 6,928 | --- | --- | --- | --- | --- | 6,931 |
| Dividend requirements applicable to preferred stock | --- | --- | (35,665) | --- | --- | --- | --- | --- | (35,665) |
| Other | --- | --- | (566) | --- | --- | --- | --- | --- | (566) |
| Net loss | --- | --- | --- | --- | --- | --- | --- | (309,824) | (309,824) |
| Balance, December 31, 2000 | \$ 358 | \$ 351 | \$ 678,140 | \$ --- | \$ 1,022 | \$ --- | \$ (4,070) | \$ (693,071) | \$ (17,270) |

See notes to consolidated financial statements

ADELPHIA BUSINESS SOLUTIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

| | Nine Months Ended December 31, 1998 | Year Ended December 31, 1999 | Year Ended December 31, 2000 |
|--|--|------------------------------------|------------------------------------|
| Cash flows from operating activities: | | | |
| Net loss | \$ (74,185) | \$ (165,466) | \$ (309,824) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | | |
| Depreciation | 23,838 | 59,430 | 102,126 |
| Amortization | 2,833 | 5,814 | 12,488 |
| Equity in net loss of joint ventures | 9,580 | 7,758 | 2,858 |
| Non-cash interest expense | 23,857 | 33,076 | 38,031 |
| Restructuring charges | -- | -- | 5,420 |
| Non-cash stock compensation | 761 | 685 | 1,319 |
| Extraordinary gain on repurchase of debt .. | (237) | -- | -- |
| Changes in operating assets and liabilities, net of effects of Acquisitions | | | |
| Other assets--net | 29,072 | (62,580) | (27,835) |
| Accounts payable | 9,862 | 127,697 | 6,411 |
| Accrued interest and other liabilities .. | 10,414 | 11,071 | 24,676 |
| Net cash provided by (used in) operating activities | 35,795 | 17,485 | (144,330) |

| | | | |
|--|------------|-----------|-----------|
| Cash flows from investing activities: | | | |
| Net cash used for acquisitions | -- | (129,118) | -- |
| Expenditures for property, plant and equipment | (146,752) | (453,206) | (712,807) |
| Repayment of senior secured note | -- | 20,000 | -- |
| Investments in joint ventures | (69,018) | (24,496) | (10,375) |
| Investments in fixed wireless licenses ... | (44,605) | -- | (77,632) |
| Investments in restricted cash - net | -- | -- | (54,178) |
| Sale of telecommunications networks | -- | -- | 87,452 |
| Sale of U.S. government securities - pledged | 15,312 | 30,626 | 30,626 |
| Net cash used in investing activities | (245,063) | (556,194) | (736,914) |
| Cash flows from financing activities: | | | |
| Proceeds from issuance of Class A common stock | 255,462 | 262,500 | 5,621 |
| Proceeds from issuance of Class B common stock | -- | 150,000 | -- |
| Proceeds from debt | -- | 300,000 | 500,000 |
| Repayment of debt | (19,868) | (5,668) | (10,288) |
| Costs associated with debt financing | -- | (6,180) | (15,025) |
| Costs associated with issuance of common stock | (14,742) | (9,646) | -- |
| Repayment of loans from stockholders | 3,000 | -- | -- |
| (Advances to) repayments from affiliates .. | (2,764) | (392,734) | 402,346 |
| Net cash provided by financing activities | 221,088 | 298,272 | 882,654 |
| Increase (decrease) in cash and cash equivalents .. | 11,820 | (240,437) | 1,410 |
| Cash and cash equivalents, beginning of period | 230,750 | 242,570 | 2,133 |
| Cash and cash equivalents, end of period | \$ 242,570 | \$ 2,133 | \$ 3,543 |

See notes to consolidated financial statements

ADELPHIA BUSINESS SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share amounts)

1. The Company and Summary of Significant Accounting Policies

Organization and Business

The consolidated financial statements include the accounts of Adelphia Business Solutions, Inc. and its more than 50% owned subsidiaries ("Adelphia Business Solutions" or the "Company"). All significant intercompany accounts and transactions have been eliminated in consolidation. The Company was formed in 1991 and is a majority-owned subsidiary of Adelphia Communications Corporation ("Adelphia"). On October 25, 1999, the stockholders of the Company elected to change the name of the Company from Hyperion Telecommunications, Inc. to Adelphia Business Solutions, Inc., which management believes will further align the strengths of both companies to develop a single brand in the communications marketplace.

Adelphia Business Solutions operates in one segment and is a nationwide facilities based integrated communications provider, or ICP, that offers broadband communications solutions, including local switch dial tone, long distance service, high-speed data transmission and internet connectivity.

On March 30, 1999, Adelphia Business Solutions elected to change its fiscal year from March 31 to December 31. The decision was made to conform to general industry practice and for administrative purposes. The change became effective for the nine months ended December 31, 1998.

On May 8, 1998, the Company issued and sold 12,500,000 shares of Class A common stock at a price to the public of \$16.00 per share (the "IPO"). Simultaneously with the closing of the IPO, the Company issued and sold an additional 3,324,001 shares of Class A common stock to Adelphia at a purchase price of \$15.00 per share (or an aggregate of approximately \$49,900). In addition, at such closing, the Company issued 3,642,666 shares of Class A common stock to Adelphia in exchange for certain of the Company's indebtedness and payables with a carrying value of \$44,258 owed to Adelphia at a purchase price of \$15.00 per share (or an aggregate of \$54,600). In a related transaction, on June 5, 1998, the Company issued and sold 350,000 shares of Class A common stock at the \$16.00 IPO price pursuant to the underwriters' over-allotment option in the IPO.

On November 30, 1999, the Company issued and sold 8,750,000 shares of Class A common stock at a price to the public of \$30.00 per share. Simultaneously with the closing of this transaction, the Company issued and sold 5,181,350 shares of Class B common stock to Adelphia at a purchase price of \$28.95 per share.

During March 2001, the Company issued and sold 25,322 shares of Class A common stock, to the public in a rights offering at a price of \$7.28 per share. Simultaneously, the Company issued and sold 11,820,070 and 51,459,624 shares of Class A and Class B common stock, respectively in the rights offering to Adelphia at a price of \$7.28 per share. Total proceeds to the Company were \$460,900 million.

At December 31, 2000, Adelphia owned approximately 60% of Adelphia Business Solutions' outstanding common stock and held approximately 90% of the total voting rights.

The Company is a leading provider of facilities-based integrated communications services to customers that include businesses, governmental and educational end users and other communications services providers primarily throughout the eastern United States. The Company currently offers a full range of communications services in 75 markets and expects by the end of the year 2001 to be offering services in approximately 80 markets, including substantially all of the top 40 metropolitan statistical areas in the United States. To serve its customers' broad and expanding communications needs, the Company has assembled a diverse collection of high-bandwidth, local and national network assets. The Company intends to integrate these assets with advanced communications technologies and services in order to provide comprehensive end-to-end communications services over our own networks. The Company provides customers with communications services such as local switch dial tone (also known as local phone service), long distance service, high-speed data transmission and Internet connectivity. The Company offers its customers a choice of receiving these services separately or as bundled packages which are typically priced at a discount when compared to the price of the separate services.

To develop the original markets and the new markets, as well as the fiber

purchases to interconnect the networks, the Company expects that it will continue to incur capital expenditures. In addition to cash and cash equivalents on hand and the restricted cash as of December 31, 2000, a total of approximately \$500,000 will be required to fund the Company's capital expenditures, working capital requirements, operating losses and pro rata investments in the joint ventures during calendar 2001. The Company will need additional funds to fully fund its business plan. The Company expects to fund its capital requirements through existing resources, credit facilities and vendor financings at the Company and joint venture levels, internally generated funds, equity invested by local partners in joint ventures and additional debt or equity financings, as appropriate, and expects to fund any potential additional purchase of partnership interest of local partners through existing resources, internally generated funds and additional debt or equity financings, as appropriate. The Company's ability to generate cash to meet its future needs will depend generally on its results of operations and the continued availability of external financing.

Joint ventures, which the Company currently does not control, are accounted for under the equity method of accounting.

Acquisitions of Partner Interests

On February 12, 1998, the Company purchased additional partnership interests in Louisville Lightwave (Louisville and Lexington), NHT Partnership (Buffalo), New Jersey Fiber Technologies and Hyperion of Harrisburg. As a result, the Company's ownership in these networks increased to 100%. The aggregate purchase price was comprised of approximately \$45,000 in cash and a warrant, which was not exercised until May 1998, for 731,624 shares of the Company's Class A common stock (See Note 6). In addition, the Company paid certain amounts related to fiber lease financings upon consummation of the purchase of the additional partnership interests.

During March 1999, Adelphia Business Solutions consummated purchase agreements with subsidiaries of Multimedia, Inc. and MediaOne of Colorado Inc. to acquire their respective interests in jointly owned networks located in the Wichita, Kansas, Jacksonville, Florida and Richmond, Virginia markets for an aggregate of approximately \$89,750. The agreements increased the Company's ownership interest in each of these networks to 100%.

During June 1999, the Company consummated a purchase agreement with Entergy Corporation ("Entergy"), the parent of its local partner in the Baton Rouge, Louisiana, Little Rock, Arkansas, and Jackson, Mississippi markets, whereby Entergy received approximately \$36,518 for its ownership interests in these markets. The agreements increased the Company's ownership interest in each of these networks to 100%.

During July 2000, the Company consummated a purchase agreement with Allegheny Communications Connect, Inc. ("Allegheny") to acquire interests in a jointly owned network located in State College, Pennsylvania. Consideration paid to Allegheny was 330,000 shares of the Company's Class A Common Stock. This purchase increased the Company's ownership in this network to 100%.

All of the acquisitions described above were accounted for using the purchase method. Accordingly, the financial results of each acquisition have been included in the Company's consolidated financial statements from the date acquired.

The following unaudited financial information of the Company assumes that each of the transactions described above had occurred at the beginning of the preceding period.

| | Nine Months Ended December 31, 1998 | Year Ended December 31, ----- 1999 2000 ----- | |
|--|--|--|------------|
| Revenues | \$ 49,156 | \$ 162,230 | \$ 352,689 |
| Net loss | (79,789) | (170,522) | (310,303) |
| Net loss applicable to common stockholders | (100,907) | (202,140) | (345,969) |
| Basic and diluted net loss per weighted average share of common stock | \$ (1.90) | \$ (3.56) | \$ (4.95) |

Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid instruments with an initial maturity date of three months or less.

Restricted Cash

Restricted cash consists of highly liquid investments with an initial maturity date of three months or less reserved for the construction of the advanced information technology infrastructure under the Company's contract with the Commonwealth of Pennsylvania. The contract was entered into on May 3, 2000. As part of the contract, the Company was required to place \$75.8 million into a restricted account to be used for the completion on the technology infrastructure. As of December 31, 2000, the Company had used \$21.6 million towards the completion of the infrastructure.

U.S. Government Securities - Pledged

U.S. Government Securities - Pledged consist of highly liquid investments which will be used to pay the first six semi-annual interest payments on the 12 1/4% Senior Secured Notes. Such investments are classified as held-to-maturity and the carrying value approximates market value.

Accounts Receivable

An allowance for doubtful accounts of \$9,640 and \$48,513 is recorded as a reduction of accounts receivable at December 31, 1999 and 2000, respectively.

Property, Plant and Equipment

Property, plant and equipment is stated at cost less accumulated depreciation. Costs capitalized include amounts directly associated with network engineering, design and construction.

Provision for depreciation of property, plant and equipment is computed using the straight-line method over the estimated useful lives of the assets beginning in the month the asset is available for use or is acquired.

The estimated useful lives of the Company's principal classes of property, plant and equipment are as follows:

| | |
|--|-------------|
| Telecommunications networks | 10-20 years |
| Network monitoring and switching equipment | 5-10 years |
| Fiber optic use rights | 15 years |
| Other | 3-10 years |

Revenue Recognition

The Company recognizes revenue from communications services in the month the related service is provided. Revenues on billings to customers in advance of providing services are deferred and recognized when earned. The Company recognizes revenues related to management and network monitoring of the joint ventures in the month that the related services are provided. Reciprocal compensation revenue is an element of switched service revenue, which represents compensation from Local Exchange Carriers ("LECs") for local exchange traffic originated by other LECs terminated on the Company's facilities. Adelphia Business Solutions recognizes revenue based upon established contracts with the LECs and has established a reserve for a portion of those revenues that are under dispute.

Significant Customers

During the nine months ended December 31, 1998, Adelphia Business Solutions' sales to AT&T and Bell Atlantic represented 11.4% and 10.1% of total revenues, respectively. During the year ended December 31, 1999, Adelphia Business Solutions' sales to AT&T and Bell Atlantic represented 8.8% and 14.7% of total revenues, respectively. During the year ended December 31, 2000, Adelphia Business Solutions' sales to Verizon represented 15.7% of total revenues.

Basic and Diluted Net Loss per Weighted Average Share of Common Stock

Basic net loss per weighted average share of common stock is computed based upon the weighted average number of common shares and warrants outstanding during the period. Diluted net loss per common share is equal to basic net loss per common share because the Adelphia Warrant discussed in Note 6 had an antidilutive effect for the periods presented. Class B common stock warrants to purchase shares of Class B common stock have been included as shares outstanding for purposes of the calculation of both basic and diluted net loss per share for the nine months ended December 31, 1998 and the years ended December 31, 1999 and 2000.

Other Assets - net

Deferred debt financing costs, included in other assets, are amortized over the term of the related debt. The unamortized amounts of deferred debt financing costs at December 31, 1999 and 2000 were \$17,434 and \$27,034, respectively. Included in other assets at December 31, 1999 and 2000 is \$44,605 and \$122,504, respectively, relating to licenses. These licenses which cover approximately 60% of the nation's population are a spectrum for a fixed wireless technology known as local multipoint distribution service ("LMDS") and are being amortized on a straight line basis over the life of the licenses, which is 10 years.

Asset Impairments

Adelphia Business Solutions periodically reviews the carrying value of its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Measurement of any impairment would include a comparison of estimated future operating cash flows anticipated to be generated during the remaining life of the assets with their net carrying value. An impairment loss would be recognized as the amount by which the carrying value of the assets exceeds their fair value.

Financial Instruments

Financial instruments which potentially subject the Company to concentration of credit risk consist principally of accounts receivable. Concentration of credit risk with respect to accounts receivable is limited due to the dispersion of the Company's customer base among different customers and geographic areas.

The Company's financial instruments include cash and cash equivalents, notes payable and redeemable preferred stock. The fair value of the notes payable exceeded their carrying value by approximately \$52,058 at December 31, 1999. The carrying value of the notes payable exceeded their fair value by approximately \$275,626 at December 31, 2000. The carrying value of the redeemable preferred stock was equal to its fair value at December 31, 1999. The carrying value of

the redeemable preferred stock exceeded its fair value by approximately \$207,947 at December 31, 2000. The fair values of the financial instruments were based upon quoted market prices.

Non-cash Financing and Investing Activities

Capital leases entered into during the nine months ended December 31, 1998, and the years ended December 31, 1999 and 2000 totaled \$1,155, \$5,772, and \$17,747 respectively (See Note 5). Dividend requirements applicable to preferred stock were satisfied by the issuance of an additional 20,624, 30,733 and 34,885 shares of such preferred stock during the nine months ended December 31, 1998 and the years ended December 31, 1999 and 2000, respectively (See Note 5).

Comprehensive Income

Comprehensive income includes all changes to all changes in stockholder's equity during a period except those resulting from investments by and distributions to owners. For the nine months ended December 31, 1998 and the years ended December 31, 1999 and 2000, the Company's only component of comprehensive income is its net loss for those periods.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements

Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133," and by SFAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities" is effective for the Company as of January 1, 2001. SFAS No. 133, as amended, establishes accounting and reporting standards requiring that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value with changes in fair value reflected in the statement of operations.

The Company has no freestanding derivative instruments. In conjunction with preparing for the implementation of this standard, the Company reviewed contracts from various functional areas of the Company to identify potential derivatives embedded in the selected contracts. No embedded derivatives were identified as a result of this review. The adoption of this statement or any transition adjustment will not have a significant effect on the Company's consolidated results of operations or financial position.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 101, which clarified the existing accounting rules for revenue recognition. SAB No. 101 was adopted by the Company in the fourth quarter of 2000. The Company's revenue recognition policy did not change with the adoption of SAB No. 101.

Reclassifications

Certain December 31, 1998 and 1999 amounts have been reclassified to conform with the presentation for the year ended December 31, 2000.

2. Property, Plant and Equipment

Property, plant and equipment consists of the following:

| | December 31, | |
|--|--------------|-------------|
| | 1999 | 2000 |
| Telecommunications networks | \$ 139,248 | \$ 214,856 |
| Network monitoring and switching equipment | 431,078 | 760,784 |
| Fiber optic use rights | 108,239 | 156,858 |
| Construction in process | 344,439 | 539,977 |
| Other | 18,270 | 55,351 |
| | 1,041,274 | 1,727,826 |
| Less accumulated depreciation | (97,518) | (193,214) |
| Total | \$ 943,756 | \$1,534,612 |

Additions to property, plant and equipment are recorded at cost which includes amounts for material, applicable labor and overhead and interest. Capitalized interest amounted to \$9,986, \$23,282 and \$43,609 for the nine months

ended December 31, 1998 and the years ended December 31, 1999 and 2000, respectively.

3. Investment in Fiber Asset and Senior Secured Note

On February 20, 1997, the Company entered into several agreements regarding the leasing of dark fiber in New York state in furtherance of its strategy to interconnect its networks in the northeastern United States. Pursuant to these agreements and in consideration of a payment of \$20,000, the Company received a \$20,000 Senior Secured Note bearing interest at 22 1/2% (subject to reduction upon early repayment of principal) due February 2002 (subject to early redemption options), from Telergy, Inc. ("Telergy"), a right to receive 58,752 shares of Telergy Class A common stock ("Telergy Stock"), and a fully prepaid lease from a Telergy affiliate for an initial lease term of 25 years (with two additional ten-year extensions) for 24 strands of dark fiber installed or to be installed in a New York fiber optic telecommunications backbone network. As of December 31, 1998, the Company included \$11,500 and \$8,500 in Property, Plant and Equipment and Other Assets, respectively, as the allocation of the \$20,000 payment between the fiber asset and the Senior Secured Note. No amounts were allocated to the Telergy Stock. The allocation reflected the Company's estimate of the relative fair values of the assets acquired.

On May 15, 1998, Telergy paid the Company \$1,000 in exchange for the Telergy Stock and a gain of \$1,000 was recorded by the Company, which is included in "other income" in the consolidated statement of operations. On November 10, 1998, the Senior Secured Note was amended to mature on January 20, 2000 in exchange for an indefeasible right to use ("IRU") or long term lease of certain fiber segments in New York City and along Telergy's long haul fiber segments in the northeastern United States and Southeastern Canada.

During May 1999, the Company received \$32,329 from Telergy for the repayment of the Senior Secured Note. The payment represented \$20,000 in principal and \$12,329 of interest, which is included in "Interest income" in the consolidated statement of operations.

4. Investments

The equity method of accounting is used to account for investments in joint ventures in which the Company owns less than a majority interest. Under this method, the Company's initial investment is recorded at cost and subsequently adjusted for the amount of its equity in the net income or loss of its joint ventures. Dividends or other distributions are recorded as a reduction of the Company's investment. Investments in joint ventures accounted for using the equity method reflect the Company's equity in their underlying net assets.

The Company's nonconsolidated investments are as follows:

| | Ownership Percentage | December 31, 1999 2000 | |
|--|-------------------------|--------------------------------|-----------|
| PECO-Adelphia Business Solutions (Philadelphia) | 50.0% | \$ 42,475 | \$ 46,725 |
| PECO-Adelphia Business Solutions (Allentown, Bethlehem, Easton, Reading) | 50.0% | 7,425 | 11,050 |
| Adelphia Business Solutions of York | 50.0% | 6,525 | 6,525 |
| Allegheny Hyperion Telecommunications | 100.0%(1) | 4,975 | --- |
| | | 61,400 | 64,300 |
| Cumulative equity in net losses | | (17,334) | (18,391) |

| | | |
|---|-----------|-----------|
| Subtotal | \$ 44,066 | \$ 45,909 |
| Investments accounted for using the cost method | --- | 2,500 |
| Total | \$ 44,066 | \$ 48,409 |

(1) As discussed in Note 1, the Company has consummated an agreement which increased its ownership to 100% in this network during July 2000.

Summarized unaudited combined financial information for the Company's nonconsolidated investments listed above being accounted for using the equity method of accounting as of the dates and for the periods ended, is as follows:

| | December 31, | |
|-------------------------|--------------|-----------|
| | 1999 | 2000 |
| Current assets | \$ 21,645 | \$ 26,942 |
| PP&E-net | 112,210 | 105,420 |
| Non-current assets | 55 | --- |
| Current liabilities | 10,175 | 10,221 |
| Non-current liabilities | 45,278 | 31,010 |

| | Nine Months Ended December 31, | | |
|----------|--------------------------------|-----------|-----------|
| | 1998 | 1999 | 2000 |
| Revenues | \$ 24,986 | \$ 43,753 | \$ 62,766 |
| Net loss | (22,325) | (15,154) | (6,218) |

5. Financing Arrangements

Note Payable - Adelphia

The Company had an unsecured credit arrangement with Adelphia which had no repayment terms prior to April 15, 1996. On April 15, 1996, \$25,000 of the proceeds from the sale of the 13% Senior Discount Notes (the "Senior Discount Notes") and Class B common stock warrants were used to repay a portion of this obligation. Interest expense and fees on this credit arrangement were based upon the weighted average cost of unsecured borrowings of Adelphia during the corresponding periods. Effective April 15, 1996, the remaining balance due on the Note payable-Adelphia was evidenced by an unsecured subordinated note due April 16, 2003. This obligation had an interest rate of 16.5% per annum. Interest accrued through May 8, 1998 on the amount outstanding to Adelphia totaled \$10,645. On May 8, 1998, the Note payable - Adelphia and all accrued interest was converted into shares of Class A common stock simultaneously with the closing of the IPO (See Note 1).

13% Senior Discount Notes and Class B Common Stock Warrants

On April 15, 1996, the Company issued \$329,000 of 13% Senior Discount Notes due April 15, 2003 and 329,000 warrants to purchase an aggregate of 1,993,638

shares of its Class B common stock. Prior to April 15, 2001, interest on the Senior Discount Notes is not payable in cash, but is added to principal. Thereafter, interest is payable semi-annually commencing October 15, 2001. The Senior Discount Notes are unsecured and are senior to all future subordinated indebtedness. On or after April 15, 2001, the Company may redeem, at its option, all or a portion of the Senior Discount Notes at 106.5%, which declines to par in 2002, plus accrued interest.

The holders of the Senior Discount Notes may put the Senior Discount Notes to the Company at any time upon the occurrence of a Change of Control (as defined in the Indenture) at a price of 101% of accreted principal. In addition, the Company will be required to offer to purchase Senior Discount Notes at a price of 100% with the proceeds of certain asset sales (as defined in the Indenture). The Indenture stipulates, among other things, limitations on additional borrowings, issuance of equity instruments, payment of dividends and other distributions, repurchase of equity interests or subordinated debt, sale-leaseback transactions, liens, transactions with affiliates, sales of Company assets, mergers and consolidations.

The Class B common stock warrants are exercisable at \$0.00308 per share, upon the earlier of May 1, 1997 or a Change of Control. Unless exercised, the Class B common stock warrants will expire on June 30, 2001. The number of shares and the exercise price for which a warrant is exercisable are subject to adjustment under certain circumstances. Through December 31, 2000, 298,705 warrants were exercised and converted into 1,810,150 shares of Class B common stock. The Company received \$5 in consideration for the exercise of the warrants.

During the nine months ended December 31, 1998, the Company paid \$17,313 to repurchase a portion of the Senior Discount Notes which had a face value of \$25,160 and a carrying value of \$17,750. The notes were retired upon repurchase which resulted in a \$237 gain.

12 1/4% Senior Secured Notes

On August 27, 1997, the Company issued \$250,000 aggregate principal amount of 12 1/4% Senior Secured Notes due September 1, 2004 (the "Senior Secured Notes"). The Senior Secured Notes are collateralized through the pledge of the common stock of certain of the Company's wholly-owned subsidiaries. A portion of the proceeds was invested in U.S. government securities and placed in an escrow account for payment in full when due of the first six scheduled semi-annual interest payments on the Senior Secured Notes as required by the Indenture.

Interest is payable semi-annually commencing March 1, 1998. The Senior Secured notes rank pari passu in right of payment with all existing and future senior Indebtedness (as defined in the Indenture) of the Company and will rank senior in right of payment to future subordinated Indebtedness of the Company. On or before September 1, 2000 and subject to certain restrictions, the Company could redeem, at its option, up to 25% of the aggregate principal amount of the Senior Secured Notes at a price of 112.25% of principal with the net proceeds of one or more Qualified Equity Offerings (as defined in the Indenture). As of September 1, 2000, the Company had not exercised its option to redeem any senior secured notes. On or after September 1, 2001, the Company may redeem, at its option, all or a portion of the Senior Secured Notes at 106.125% of principal which declines to par in 2003, plus accrued interest. The holders of the Senior Secured Notes may put them to the Company at any time upon the occurrence of a Change of Control (as defined in the Indenture) at a price of 101% of principal. The Indenture stipulates, among other things, limitations on additional borrowing, payment of dividends and other distributions, repurchase of equity interests, transactions with affiliates and the sale of assets.

12 7/8% Senior Exchangeable Redeemable Preferred Stock

On October 9, 1997, the Company issued \$200,000 aggregate liquidation preference of 12 7/8% Senior Exchangeable Redeemable Preferred Stock due October 15, 2007 (the "Preferred Stock"). Proceeds to the Company, net of commissions and other transaction costs, were approximately \$194,500.

Dividends are payable quarterly commencing January 15, 1998 at 12 7/8% of the liquidation preference of outstanding Preferred Stock. Through October 15, 2002, dividends are payable in cash or additional shares of Preferred Stock at the Company's option. Subsequent to October 15, 2002, dividends are payable in cash. The Preferred Stock ranks junior in right of payment to all indebtedness and other obligations of the Company, its subsidiaries and joint ventures. On or before October 15, 2000, and subject to certain restrictions, the Company could redeem, at its option, up to 35% of the initial aggregate liquidation preference of the Preferred Stock originally issued with the net cash proceeds of one or more Qualified Equity Offerings (as defined in the Certificate of Designation) at a redemption price equal to 112.875% of the liquidation preference per share of the Preferred Stock, plus, without duplication, accumulated and unpaid dividends to the date of redemption; provided that, after any such redemption, there are remaining outstanding shares of Preferred Stock having an aggregate liquidation preference of at least 65% of the initial aggregate liquidation preference of the Preferred Stock originally issued. As of October 15, 2000, the Company had not exercised its option to redeem any Preferred Stock. On or after October 15, 2002, the Company may redeem, at its option, all or a portion of the Preferred Stock at 106.438% of the liquidation preference thereof declining to 100% of the liquidation preference in 2005, plus accrued interest. The Company is required to redeem all of the shares of Preferred Stock outstanding on October 15, 2007 at a redemption price equal to 100% of the liquidation preference thereof, plus, without duplication, accumulated and unpaid dividends to the date of redemption.

The holders of the Preferred Stock may put the Preferred Stock to the Company at any time upon the occurrence of a Change of Control (as defined in the Certification of Designation) at a price of 101% of the liquidation preference thereof. The Certificate of Designation stipulates, among other things, limitations on additional borrowings, payment of dividends and other distributions, transactions with affiliates and the sale of assets. The Company may, at its option, on any dividend payment date, exchange in whole, but not in part, the then outstanding shares of Preferred Stock for 12 7/8% Senior Subordinated Debentures due October 15, 2007 (the "Exchange Debentures"). Interest, redemption and registration rights provisions of the Exchange Debentures are consistent with the provisions of the Preferred Stock.

12% Senior Subordinated Notes due 2007

On March 2, 1999, Adelphia Business Solutions issued \$300,000 aggregate principal amount of 12% Senior Subordinated Notes due 2007 ("Subordinated Notes"). An entity controlled by members of the Rigas Family, controlling stockholders of Adelphia, purchased \$100,000 aggregate principal amount of the Subordinated Notes directly from the Company. Proceeds to the Company, net of discounts, commissions and other transaction costs were approximately \$295,000.

Interest is payable semi-annually commencing May 1, 1999. The Subordinated Notes rank behind all current and future indebtedness (other than trade payables), except indebtedness that expressly provides that it is not senior to the notes. On or before November 1, 2003 and subject to certain restrictions, the Company could redeem at its option, up to 25% of the aggregate principal amount of the Subordinated Notes at a price of 112.00% of principal with the net

proceeds of one or more Qualified Equity Offerings (as defined in the Indenture). On or after November 1, 2003, the Company could redeem, at its option, all or a portion of the Subordinated Notes at 106.00% of principal which declines to par in 2005, plus accrued interest. The holders of the Subordinated Notes may put them to the Company at any time upon the occurrence of a Change in Control (as defined in the Indenture) at a price of 101.00% of principal. The Indenture stipulates, among other things, limitations on additional borrowing, payment of dividends, and other distributions, repurchase of equity, interests, transactions with affiliates and the sale of assets.

The expected maturities of the 13% Senior Discount Notes, the 12 1/4% Senior Secured Notes, the 12 7/8% Senior Exchangeable Redeemable Preferred Stock and the 12% Senior Subordinated Notes are as follows:

| | |
|------------|---------|
| 2001 | \$ --- |
| 2002 | --- |
| 2003 | 303,840 |
| 2004 | 250,000 |
| 2005 | --- |
| Thereafter | 597,067 |

Note Payable

The Company and certain of Adelphia's other subsidiaries and affiliates are parties to a joint bank credit facility. As part of their facility, the Company and its subsidiaries have the ability to borrow up to an aggregate of \$500,000 which, if borrowed, would be guaranteed by other members of the borrowing group. As of December 31, 2000, a subsidiary of the Company had borrowed \$500,000 under this credit facility. In addition, the Company has agreed to pay a subsidiary of Adelphia \$15,000 as a fee for placing the credit facility. The interest rate at which the Company has borrowed these funds is 12 1/2%, a portion of which is payable to a subsidiary of Adelphia. For the year ended December 31, 2000, the Company recorded \$21,874 for interest expense relating to Note Payable, \$7,003 of which was payable to a subsidiary of Adelphia.

Maturities of Note Payable are as follows:

| | |
|------------|---------|
| 2001 | \$ --- |
| 2002 | --- |
| 2003 | 18,068 |
| 2004 | 38,409 |
| 2005 | 48,636 |
| Thereafter | 394,887 |

Long Term Lease Facility

On December 31, 1997, the Company consummated an agreement for a \$24,500 long-term lease facility with AT&T Capital Corporation. The lease facility provides financing for certain of the switching equipment. Included in the lease facility is the sale and leaseback of certain switch equipment for which the Company received \$14,876.

Other Debt

Other debt consists primarily of capital leases entered into in connection with the acquisition of fiber leases for use in the telecommunications networks and the long-term lease facility described above. The interest rate on such debt ranges from 7.5% to 15.0%.

Maturities of other debt are as follows:

| | |
|------------|----------|
| 2001 | \$ 5,700 |
| 2002 | 5,954 |
| 2003 | 6,194 |
| 2004 | 6,724 |
| 2005 | 7,935 |
| Thereafter | 16,058 |

6. Common Stock and Other Stockholders' Equity (Deficiency)

Adelphia Business Solutions' authorized capital stock consists of 800,000,000 shares of Class A common stock, par value \$0.01 per share, 400,000,000 shares of Class B common stock, par value \$0.01 per share, and 50,000,000 shares of preferred stock, par value \$0.01 per share.

Common Stock

Shares of Class A common stock and Class B common stock are substantially identical, except that holders of Class A common stock are entitled to one vote per share and holders of Class B common stock are entitled to 10 votes per share on all matters submitted to a vote of stockholders. Each share of Class B common stock is convertible into one share of Class A common stock. In the event a cash dividend is paid, the holders of the Class A and the Class B common stock will be paid an equal amount.

Prior to the IPO in May 1998, certain former company officers (the "Officers") were parties to a stockholder agreement, as amended (the "Stockholder Agreement") with Adelphia. The Stockholder Agreement provided, among other things, (i) that upon the earlier of (a) the termination of employment of any of the officers or (b) after October 7, 1998, such officers could put their shares to Adelphia for fair market value, unless such put rights were terminated as a result of the registration of the Company's common stock under the Securities Act of 1933 (the "Securities Act") and (ii) for certain buy/sell and termination rights and duties among Adelphia and the Officers. The Stockholder Agreement terminated automatically upon the date of the IPO.

The Company also entered into Term Loan and Stock Pledge Agreements ("Loan Agreements") with each of the Officers. Pursuant to the Loan Agreements, each Officer borrowed \$1,000 from the Company. Each of these loans accrued interest at the average rate at which the Company could invest cash on a short-term basis, was secured by a pledge of the borrower's common stock in the Company, and would mature upon the earlier of (i) October 8, 1998 or (ii) the date of the IPO and the Officers had the right to sell at least \$1,000 worth of their shares. Each Loan Agreement also provided that any interest accruing on a loan from the date six months after the date of such loan would be offset by a bonus payment when principal and interest thereon are due and which would include additional amounts to pay income taxes applicable to such bonus payment.

Pursuant to agreements among the Company, Adelphia and the Officers, simultaneous with the consummation of the IPO, (i) the Stockholder Agreement and

Loan Agreements terminated, (ii) the Officers each repaid the \$1,000 borrowed from the Company pursuant to the Loan Agreements plus accrued interest thereon by each selling 66,667 shares of Class B common stock to Adelphia and using the proceeds therefrom to repay such loans and (iii) the Company paid to the management stockholders bonus payments in the amount of interest accruing on the Loans from the date six months after the date of the Loan Agreements and any additional amounts necessary to pay income taxes applicable to such bonus payments.

On April 8, 1998, the Board of Directors of the Company approved a 3.25-for-one stock split of its Class A and Class B common stock payable to stockholders of record on April 28, 1998. The stock split was effected in the form of a dividend of 2.25 shares for every outstanding share of common stock. All references in the accompanying consolidated financial statements to the number of shares of common stock and the par value have been retroactively restated to reflect the stock split on April 28, 1998.

On October 25, 1999, the shareholders of the Company approved an amendment to Article IV of the Amended and Restated Certificate of Incorporation increasing the number of authorized shares of capital stock from 455,000,000 to 1,250,000,000, the authorized number of Class A common stock from 300,000,000 to 800,000,000, the authorized number of shares of Class B common stock from 150,000,000 to 400,000,000, and the authorized number of shares of Preferred Stock from 5,000,000 to 50,000,000.

Changes in the number of shares outstanding for the Company's common stock are as follows:

| | Class A Common Stock | Class B Common Stock |
|--|----------------------------|----------------------------|
| Shares Outstanding, March 31, 1998 | 396,500 | 32,500,000 |
| Issuance of Class A common stock | 19,816,667 | --- |
| Exercise of Class A common stock warrant | 731,624 | --- |
| Conversion of Class B common stock for Class A common stock | 1,372,780 | 1,187,541 |
| Other | 58,500 | (1,372,780) |
| Shares Outstanding, December 31, 1998 | 22,376,071 | 32,314,761 |
| Issuance of Class A common stock | 8,750,000 | --- |
| Issuance of Class B common stock | --- | 5,181,350 |
| Issuance of Class B common stock for warrant exercise | --- | 413,530 |
| Conversion of Class B common stock for Class A common stock | 2,538,182 | (2,538,182) |
| Other | 402,324 | --- |
| Shares Outstanding, December 31, 1999 | 34,066,587 | 35,371,459 |
| Issuance of Class A common stock for purchase of telecommunications network | 330,000 | --- |
| Issuance of Class A common stock for warrant exercise | 913,380 | --- |
| Issuance of Class B common stock for warrant exercise | --- | 209,056 |

| | | |
|--|------------|------------|
| Conversion of Class B common stock for | | |
| Class A common stock | 436,656 | (436,656) |
| Other | 101,743 | --- |
| | ----- | ----- |
| Shares Outstanding, December 31, 2000 | 35,848,366 | 35,143,859 |
| | ===== | ===== |

Warrants

Class A Common Stock Warrants

On February 12, 1998, the Company consummated an agreement with Lenfest Telephony, Inc. ("Lenfest") whereby Lenfest received a warrant to obtain 731,624 shares of Class A common stock of the Company (the "Lenfest Warrant") in exchange for its partnership interest in the Harrisburg, Pennsylvania network. The Lenfest Warrant was exercised during May 1998 for no additional consideration.

Class B Common Stock Warrants

The Class B common stock warrants were issued on April 15, 1996 in connection with the issuance of the Senior Discount Notes (See Note 5).

Adelphia Warrant

On June 13, 1997, the Company entered into agreements with MCI. Pursuant to these agreements the Company is designated MCI's preferred provider for new end user dedicated access circuits and conversions of end user dedicated access circuits as a result of conversions from the incumbent LEC in the Company's markets. Adelphia Business Solutions also has certain rights of first refusal to provide MCI with certain communications services. Under this arrangement, the Company issued a warrant to purchase 913,380 shares of Class A common stock for \$6.15 per share to MCI (the "MCI Warrant") representing 2 1/2% of the common stock of the Company on a fully diluted basis. MCI could receive additional warrants to purchase up to an additional 6% of the shares of the Company's Class A common stock, on a fully diluted basis, at fair value, if MCI met certain purchase volume thresholds over the term of the agreement.

In connection with the IPO and the related over-allotment option, the Company and MCI entered into an agreement that provides as follows with respect to the MCI Warrant and MCI's right to receive additional MCI warrants as a result of the IPO (the "Additional MCI Warrants"): (i) the Additional MCI

Warrants, totaling 508,121 shares, issued with respect to the shares sold to the public in the IPO, the over-allotment option and with respect to the Adelphia shares purchased will have an exercise price equal to the lower of \$6.15 per share or the price per share to the public in the IPO (the "IPO Price"), and (ii) Adelphia purchased from MCI the MCI Warrant and the Additional MCI Warrants for a purchase price equal to the number of Class A common stock shares issuable under the warrants being purchased times the IPO Price minus the underwriting discount, less the aggregate exercise price of such warrants. Furthermore, in consideration of the obligations undertaken by Adelphia to facilitate the agreements between MCI and Adelphia Business Solutions, the Company paid to Adelphia a fee of \$500 and issued a warrant to Adelphia, which expires three years after its issuance, to purchase 200,000 shares of Class A common stock at an exercise price equal to the IPO Price. During June 2000, Adelphia exercised a warrant to purchase 913,380 shares of Class A Common Stock of the Company at a price of \$6.15 per share. Total proceeds to the Company were \$5,611.

Long Term Incentive Compensation Plan

On October 3, 1996, the Board of Directors and stockholders of the Company approved the Company's 1996 Long-Term Incentive Compensation Plan (the "1996 Plan"). The 1996 Plan provides for the grant of (i) options which qualify as "incentive stock options" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, (ii) options which do not so qualify, (iii) share awards (with or without restrictions on vesting), (iv) stock appreciation rights and (v) stock equivalent or phantom units. The number of shares of Class A common stock available for issuance initially was 5,687,500. Such number is to increase each year by 1% of outstanding shares of all classes of the Company's common stock, up to a maximum of 8,125,000 shares. Options, awards and units may be granted under the 1996 Plan to directors, officers, employees and consultants. The 1996 Plan provides the incentive stock options must be granted with an exercise price of not less than the fair market value of the underlying common stock on the date of grant. Options outstanding under the Plan may be exercised by paying the exercise price per share through various alternative settlement methods.

In August 1999, the Company issued under the 1996 Plan to each of John J. Rigas, Michael J. Rigas, Timothy J. Rigas and James P. Rigas (i) stock options (the "Rigas Options") covering 100,000 shares of Class A common stock, which options will vest in equal one-third amounts on the third, fourth and fifth year anniversaries of grant (vesting conditioned on continued service as an employee or director) and which shall be exercisable at \$16.00 per share and (ii) stock awards (the "Rigas Grants") covering 100,000 shares of Class A common stock, which stock awards will vest in equal one-third amounts on the third, fourth and fifth year anniversaries of grant (vesting conditioned on continued service as an employee or director).

In addition to the Rigas Options, certain employees have been granted options to purchase shares of Class A common stock at prices equal to the fair market value of the shares on the date the option was granted. Options are exercisable beginning from immediately after granting and have a maximum term of ten years.

The following table summarizes stock option activity under all plans:

| | Number of shares subject to options | Weighted Average Exercise price per share |
|--------------------------------|--|--|
| Outstanding, December 31, 1998 | --- | \$ --- |
| Granted | 600,417 | 15.13 |
| Outstanding, December 31, 1999 | 600,417 | 15.13 |
| Granted | 216,050 | 32.71 |
| Outstanding, December 31, 2000 | 816,467 | 19.78 |

The following table summarizes information about stock options outstanding and exercisable at December 31, 2000

| Options outstanding | | | | Options exercisable | | |
|--------------------------|------------------|---|---|---------------------|---|---|
| Exercise price per share | Number of shares | Weighted average remaining contractual life (years) | Weighted average exercise price per share | Number of shares | Weighted average remaining contractual life (years) | Weighted average exercise price per share |
| \$8.69-\$61.63 | 816,467 | 5.4 | \$19.78 | 361,667 | 6.9 | \$23.59 |

SFAS No. 123, "Accounting for Stock-Based Compensation," ("SFAS 123") requires the Company to disclose pro forma information regarding option grants made to its employees. SFAS 123 specifies certain valuation techniques that produce estimated compensation charges that are included in the pro forma results below. These amounts have not been reflected in the Company's statement of operations, because the Company applies the provisions of APB 25, "Accounting for Stock Issued to Employees," which specifies that no compensation charge arises when the exercise price of the employees' stock options equals or exceeds the market value of the underlying stock at the grant date, as in the case of options granted to the Company's employees.

SFAS 123 pro forma numbers are as follows:

| | Year Ended December 31, | |
|--|----------------------------|-------------|
| | 1999 | 2000 |
| Net loss-as reported | \$(165,466) | \$(309,824) |
| Net loss-pro forma applying SFAS 123 | (167,800) | (315,726) |
| Basic and diluted net loss per common share-as reported under ABP 25 | (3.47) | (4.93) |
| Basic and diluted net loss per common share-pro forma under SFAS 123 | (3.51) | (5.01) |

Under SFAS 123, the fair value of each option grant is estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions

| | Employee Stock Options Year Ended December 31, | |
|--------------------------|---|---------------|
| | 1999 | 2000 |
| Expected dividend yield | 0% | 0% |
| Risk-free interest rate | 6.93% | 5.10% - 6.20% |
| Expected volatility | 50% | 106% - 116% |
| Expected life (in years) | 5.2 | 9.1 |

The Black-Scholes option valuation model was developed for use in estimating

the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion the existing models do not necessarily provide a reliable single measure of the fair value of the Company's options.

In addition to the stock options and Rigas Grants, the Company issued 58,500 and 98,500 shares of Class A common stock to certain employees for the nine months ended December 31, 1998 and the year ended December 31, 2000, respectively, resulting in the recognition of \$761 and \$387 of compensation expense, respectively.

7. Commitments and contingencies

The Company rents office space, node space and fiber under leases with terms which are generally less than one year or under agreements that are generally cancelable on short notice. Total rental expense under all operating leases aggregated \$1,893, \$10,166 and \$22,606 for the nine months ended December 31, 1998 and the years ended December 31, 1999 and 2000, respectively.

The minimum future lease obligations under the noncancelable operating leases as of December 31, 2000 are approximately:

Period ending December 31,

| | |
|------------|-----------|
| 2001 | \$ 25,851 |
| 2002 | 25,639 |
| 2003 | 26,067 |
| 2004 | 25,281 |
| 2005 | 23,538 |
| Thereafter | 109,552 |

During July 1999, the Company purchased the naming rights to the NFL Football Tennessee Titans stadium in Nashville, Tennessee. The term of the naming rights contract is for 15 years and requires the Company to pay \$2,000 per year.

The communications industry and Adelphia Business Solutions are subject to extensive regulation at the federal, state and local levels. On February 8, 1996, President Clinton signed the Telecommunications Act of 1996 ("Telecommunications Act"), the most comprehensive reform of the nation's telecommunications laws since the Communications Act of 1934. Management of the Company is unable to predict the effect that the Telecommunications Act, related rulemaking proceedings or other future rulemaking proceedings will have on its business and results of operations in future periods.

Adelphia Business Solutions has entered into a series of agreements with several local and long-haul fiber optic network providers. These agreements provide the Company with ownership or an IRU to local and long-haul fiber optic

cable. The Company believes this will allow it to expand its business strategy to include on-net provisioning of regional, local and long distance, internet and data communications and to cost-effectively further interconnect its markets in the eastern half of the United States.

The estimated obligations under these arrangements as of December 31, 2000 are approximately

| | |
|------------|------------|
| 2001 | \$ 111,270 |
| 2002 | 22,408 |
| 2003 | 895 |
| 2004 | 897 |
| 2005 | 898 |
| Thereafter | 13,107 |

In addition to the amounts due under the agreements for the fiber optic cable, the Company is also required to pay certain fiber optic network providers for pro-rated maintenance and rights of ways fees on a yearly basis.

8. Related Party Transactions

The following table summarizes the Company's transactions with related parties:

| | Nine Months Ended December 31, 1998 | Year Ended December 31, ----- 1999 2000 ----- | |
|--|--|--|------------------|
| Revenues: | | | |
| Management fees | \$ 2,135 | \$ 4,948 | \$ 7,596 |
| Telecommunications service revenue | 363 | 1,840 | 8,581 |
| Network monitoring fees | 586 | --- | --- |
| Total | <u>\$ 3,087</u> | <u>\$ 6,788</u> | <u>\$ 16,177</u> |
| Interest Income | <u>\$ 8,395</u> | <u>\$ 8,483</u> | <u>\$ 6,282</u> |
| Expense | | | |
| Interest expense | \$ 737 | \$ --- | \$ 7,003 |
| Allocated corporate costs | 2,981 | 8,587 | 18,519 |
| Fiber leases | 139 | 236 | 306 |
| Amortization of deferred debt financing cost | --- | --- | 1,800 |
| Total | <u>\$ 3,857</u> | <u>\$ 8,823</u> | <u>\$ 27,628</u> |

Management fees from related parties represent fees received by the Company from its unconsolidated joint ventures for the performance of financial, legal, regulatory, network design, construction and other administrative services.

Telecommunications services revenue from related parties represents fees received by the Company from Adelphia for providing switched services to various Adelphia offices, including Coudersport, Pennsylvania.

Network monitoring fees represent fees received by the Company for technical support for the monitoring of each individual joint venture's telecommunications system.

Interest income represents interest charged on certain affiliate receivable

balances with joint ventures and with Adelphia.

Interest expense relates to the Note payable-Adelphia and the Note Payable (See Note 5).

Allocated corporate costs represent costs incurred by Adelphia on behalf of the Company for the administration and operation of the Company. These costs include charges for office space, corporate aircraft and shared services such as finance activities, information systems, computer services, human resources, and taxation. Such costs were estimated by Adelphia and do not necessarily represent the actual costs that would be incurred if the Company were to secure such services on its own.

Fiber lease expense represents amounts paid to various subsidiaries of Adelphia for the utilization of existing cable television plant for development and operation of the consolidated operating networks.

Amortization of deferred debt financing costs for the year ended December 31, 2000 relate to the amortization of the \$15,000 placement fee paid to a subsidiary of Adelphia.

During the nine months ended December 31, 1998 and the years ended December 31, 1999 and 2000, the Company paid \$1,044, \$7,577 and \$11,387 respectively, to entities owned by certain shareholders of Adelphia primarily for property, plant and equipment and services at market rates.

During the nine months ended December 31, 1998 and the years ended December 31, 1999 and 2000, the Company made demand advances to Adelphia. At December 31, 1998, 1999 and 2000, \$4,950, \$392,629 and \$0, respectively were outstanding under this agreement. The Company received interest on such advances at a rate of between 5.15% and 6.33%, which is included in interest income - affiliate in the consolidated statement of operations. Demand advances represent cash held by Adelphia's centralized cash management system immediately available to the Company for any corporate purpose on demand.

During December 2000, the Company sold to a subsidiary of Adelphia certain network and telecommunications assets. The assets sold related to six markets in Virginia, Colorado, California and Ohio which the Company has decided not to pursue as part of the revised business plan. Network or market information presented in this Form 10-K includes these six markets. The aggregate purchase price for these transactions was approximately \$87.5 million plus the assumption of certain liabilities. The Company will manage these networks for Adelphia on a going forward basis.

9. Employee Benefit Plan

The Company participates in the Adelphia 401(k) and stock value plan which provides that eligible full-time employees may contribute from 2% to 16% of their pre-tax compensation subject to certain limitations. The Company matches contributions up to 1.5% of each participant's pre-tax compensation. For the nine months ended December 31, 1998 and the years ended December 31, 1999 and 2000, the Company's matching contributions were \$87, \$401 and \$855, respectively. The 401(k) and stock value plans also provide for certain stock incentive awards on an annual basis.

In addition to the 401(k) and stock value plan, the Company participates in an Adelphia stock incentive plan which provides certain management level

employees with compensation bonuses based on a weighted average of Adelphia Class A common stock and Adelphia Business Solutions Class A common stock performance. Costs to the Company associated with this plan were approximately \$1,746 and \$261 for the years ended December 31, 1999 and 2000, respectively.

10. Income Taxes

For the nine months ended December 31, 1998 and the years ended December 31, 1999 and 2000, Adelphia Business Solutions will not be included within Adelphia's consolidated federal income tax return. Deferred income taxes reflect the net tax effects of (a) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and (b) operating loss carryforwards.

At December 31, 2000, the Company had net operating loss carryforwards for federal income tax purposes of \$573,127, which expire as follows:

Year of expiration:

| | | | | | |
|------|--------|------|-----------|------|---------|
| 2007 | \$ 626 | 2012 | \$ 42,386 | 2017 | \$ --- |
| 2008 | 3,504 | 2013 | --- | 2018 | 106,783 |
| 2009 | 4,840 | 2014 | --- | 2019 | 140,930 |
| 2010 | 7,588 | 2015 | --- | 2020 | 251,176 |
| 2011 | 15,294 | 2016 | --- | | |

The Company's net deferred tax asset included in other assets - net is comprised of the following

| | December 31, 1999 | 2000 |
|---|----------------------|-----------|
| Deferred tax asset: | | |
| Differences between book and tax basis of intangible assets | \$ 1,562 | \$ 4,874 |
| Net operating loss carryforwards | 142,993 | 234,685 |
| Allowance for doubtful accounts and other | 4,384 | 21,720 |
| Total | 148,939 | 261,279 |
| Valuation allowance | (114,043) | (239,597) |
| Total | 34,896 | 21,682 |
| Deferred tax liabilities: | | |
| Differences between book and tax basis of property, plant and equipment | 34,626 | 21,645 |
| Investment in partnerships | 233 | --- |
| Total | 34,859 | 21,645 |
| Net deferred tax asset | \$ 37 | \$ 37 |

The net change in the valuation allowance for the years ended December 31,

1999 and 2000 was an increase of \$65,297 and \$125,554, respectively. The Company recorded the valuation allowance to reduce the deferred tax asset to zero because the Company does not believe that it is more likely than not that it will realize its deferred tax asset.

Income tax expense for the nine months ended December 31, 1998 and the years ended December 31, 1999 and 2000 are as follows:

| | Nine Months Ended December 31, 1998 | Year Ended December 31, 1999 | 2000 |
|----------|--|------------------------------------|--------|
| Current | \$ --- | \$ 1 | \$ --- |
| Deferred | --- | --- | --- |
| Total | \$ --- | \$ 1 | \$ --- |

A reconciliation of the statutory federal income tax rate and the Company's effective income tax rate is as follows:

| | Nine Months Ended December 31, 1998 | Year Ended December 31, 1999 | 2000 |
|---------------------------------------|--|------------------------------------|--------|
| Statutory federal income tax rate | 35.0% | 35.0% | 35.0% |
| Change in federal valuation allowance | (35.0) | (35.0) | (35.0) |
| State taxes, net of federal benefit | --- | --- | --- |
| Income Tax Expense | ---% | ---% | ---% |

11. Restructuring Charges

During December, 2000, the Company initiated a plan to reduce its network expansion plan from its former target of 175 to 200 markets nationwide by the end of 2001 to a new target of approximately 80 markets, thereby canceling plans to enter or continue operations in approximately 120 markets. In January, 2001, the Company reduced its national staff by approximately 8% as a result of the Company's revised business plan. Most of the affected employees were located in markets in which the Company has stopped expansion. For the year ended December 31, 2000, the Company recorded a charge of approximately \$5,420 to cover a portion of the costs associated with this revised business plan. Approximately \$4,568 of the charge relates to cash expenses relating to the termination of lease contracts in the eliminated markets.

Approximately \$852 of the charge relates to severance for certain executive

employees. No amounts were recorded for severance for terminated non-executive employees as of December 31, 2000. In addition, no amounts were recorded for the disposal of assets as most equipment deployed in the terminated markets can be redeployed in the Company's surviving markets, at little or no incremental costs.

12. Quarterly Financial Data (unaudited)

The following tables summarize the financial results of the Company for each of the quarters in the years ended December 31, 1999 and 2000:

| Year Ended December 31, 1999 | March 31 | Three Months Ended | | December 31 |
|---|-------------|--------------------|--------------|-------------|
| | | June 30 | September 30 | |
| Revenues | \$ 21,438 | \$ 34,215 | \$ 43,347 | \$ 55,575 |
| Operating expenses: | | | | |
| Network operations | 8,504 | 11,671 | 15,862 | 22,488 |
| Selling, general and administrative | 21,009 | 32,637 | 39,972 | 48,997 |
| Depreciation and amortization | 13,535 | 13,586 | 18,168 | 19,955 |
| Total | 43,048 | 57,894 | 74,002 | 91,440 |
| Operating loss | (21,610) | (23,679) | (30,655) | (35,865) |
| Other income (expense): | | | | |
| Interest income | 1,998 | 14,780 | 2,867 | 288 |
| Interest income - affiliate | 2,828 | 2,779 | 1,336 | 1,540 |
| Interest expense | (15,533) | (21,805) | (19,045) | (17,931) |
| Loss before income taxes and equity in net loss of joint ventures | (32,317) | (27,925) | (45,497) | (51,968) |
| Income tax (expense) benefit | -- | (4) | -- | 3 |
| Loss before equity in net loss of joint ventures | (32,317) | (27,929) | (45,497) | (51,965) |
| Equity in net loss of joint ventures | (3,803) | (3,291) | (246) | (418) |
| Net loss | (36,120) | (31,220) | (45,743) | (52,383) |
| Dividend requirements applicable to preferred stock | (7,479) | (7,720) | (7,979) | (8,450) |
| Net loss applicable to common stockholders | \$ (43,599) | \$ (38,940) | \$ (53,722) | \$ (60,833) |
| Basic and diluted net loss per weighted average share of common stock | \$ (0.79) | \$ (0.70) | \$ (0.97) | \$ (1.01) |
| Weighted average shares of common stock outstanding (in thousands) | 55,497 | 55,497 | 55,497 | 60,453 |

| Year Ended December 31, 2000 | March 31 | Three Months Ended | | December 31 |
|------------------------------|----------|--------------------|--------------|-------------|
| | | June 30 | September 30 | |

| | | | | |
|---|-------------|-------------|-------------|--------------|
| Revenues | \$ 69,301 | \$ 80,214 | \$ 93,551 | \$ 108,908 |
| Operating expenses: | | | | |
| Network operations | 33,732 | 41,661 | 50,893 | 57,028 |
| Selling, general and administrative | 58,846 | 63,348 | 67,205 | 87,799 |
| Restructuring charges | -- | -- | -- | 5,420 |
| Depreciation and amortization | 19,438 | 26,689 | 27,103 | 41,384 |
| Total | 112,016 | 131,698 | 145,201 | 191,631 |
| Operating loss | (42,715) | (51,484) | (51,650) | (82,723) |
| Other income (expense): | | | | |
| Interest income | 404 | 1,020 | 1,247 | 1,229 |
| Interest income - affiliate | 5,023 | 1,259 | -- | -- |
| Interest expense | (12,930) | (15,264) | (14,557) | (38,822) |
| Interest expense - affiliate | -- | -- | (2,191) | (4,812) |
| Loss before income taxes and equity in net (loss) income of joint ventures and extraordinary gain | (50,218) | (64,469) | (67,151) | (125,128) |
| Income tax expense | -- | -- | -- | -- |
| Loss before equity in net (loss) income of joint ventures | (50,218) | (64,469) | (67,151) | (125,128) |
| Equity in net (loss) income of joint ventures | (105) | (346) | 381 | (2,788) |
| Net loss | (50,323) | (64,815) | (66,770) | (127,916) |
| Dividend requirements applicable to preferred stock | (8,497) | (8,771) | (9,053) | (9,344) |
| Net loss applicable to common stockholders | \$ (58,820) | \$ (73,586) | \$ (75,823) | \$ (137,260) |
| Basic and diluted net loss per weighted average share of common stock | \$ (0.85) | \$ (1.06) | \$ (1.08) | \$ (1.94) |
| Weighted average shares of common stock outstanding (in thousands) | 69,431 | 69,503 | 70,531 | 70,683 |

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information set forth above in Part 1 under the caption "Executive Officers of the Registrant" is incorporated herein by reference. The other information required by this item is incorporated herein by reference to the information set forth under the caption "Election of Directors" and the information, if any, under the caption "Section 16(a) Beneficial Ownership Reporting Compliance," in the Company's definitive proxy statement for the 2001 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, or by reference to a filing amending this Form 10-K.

ATTACHMENT B

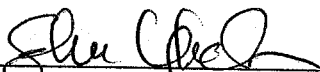
VERIFICATION

COMMONWEALTH OF PENNSYLVANIA

COUNTY OF POTTER

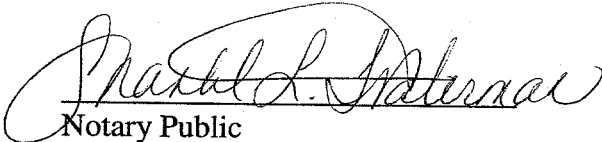
VERIFICATION

I, John B. Glicksman, hereby declare under penalty of perjury, that I am Vice President of Adelphia Business Solutions, Inc., the parent company of the Applicant in this proceeding; that I am authorized to make this verification on the Applicant's behalf; that I have read the foregoing application and exhibits; and that the facts stated therein are true and correct to the best of my knowledge, information and belief. In addition, I hereby declare that the Applicant agrees to adhere to all state laws and all commission policies, rules and orders.



John B. Glicksman
Vice President
Adelphia Business Solutions, Inc.

Subscribed and sworn to before me this 3 day of October, 2001.



Notary Public

My Commission expires: Aug. 16, 2004

